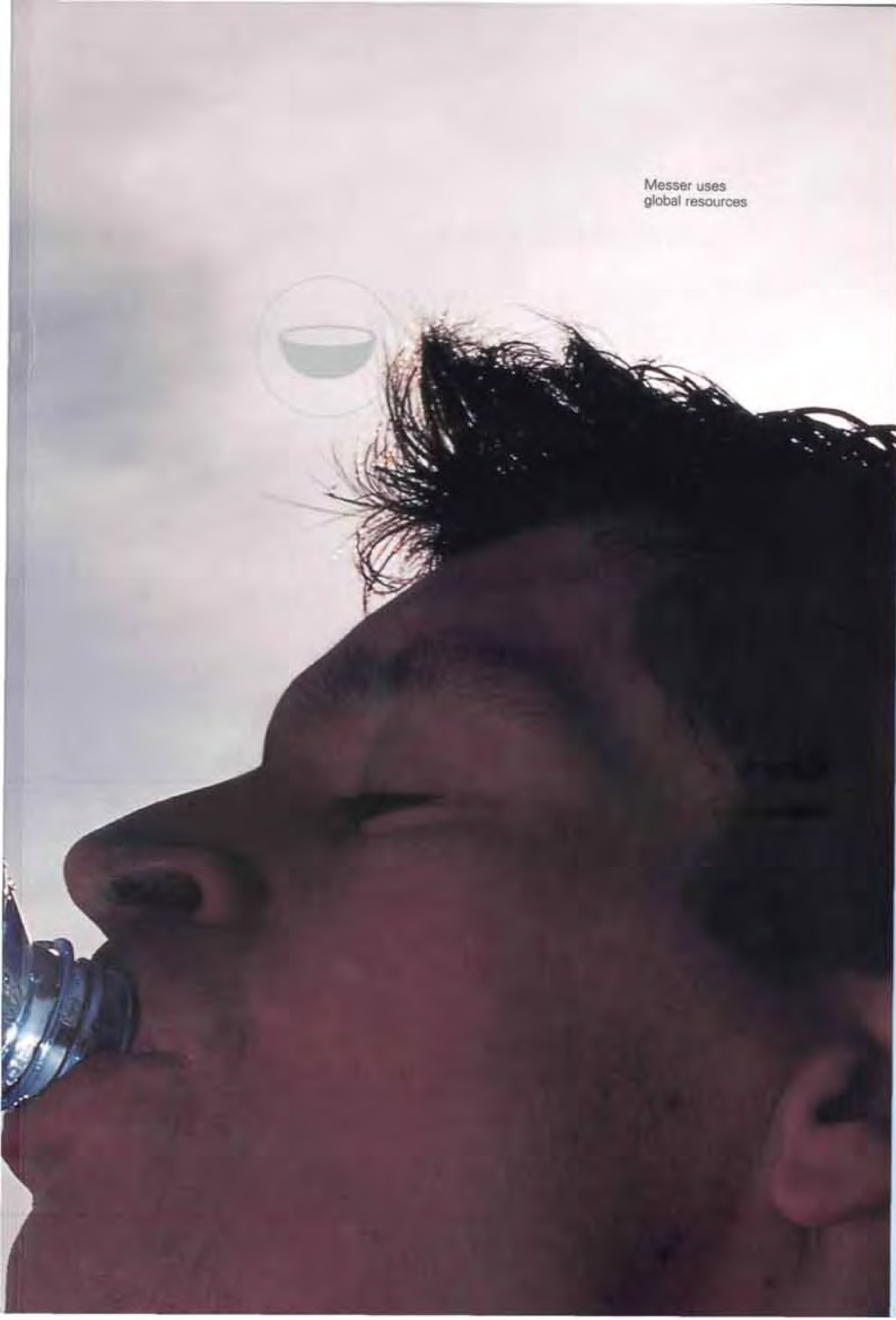
MESSER

Messer Group
Annual Report 1999
Gas products
and applications
create solutions



Natural resources, such as the air around us, are the raw materials that we use to make products for all kinds of applications.

Gas applications developed by Messer are used in transport, technology, healthcare, industry, food processing, water treatment, farming and recycling.

Contents

Air, our raw material, consists of

78.09%	Nitrogen
20.95%	Oxygen
0.93%	Argon
0.033%	Carbon Dioxide
0.0016%	Neon
0.00052%	Helium
0.00011%	Krypton
0.0001%	Hydrogen
0.000008%	Xenon

Messer Group is one of the world's largest industrial gases companies. Messer's global strengths include the reliability of its services and systems, its customer and market focus and its innovation rate in developing new applications and solutions. Messer Group operates in 55 countries and comprises 177 companies. Its headquarters is in Frankfurt am Main/Germany. The Group's 10008 employees work in over 500 branches, production plants and research centres.

Americas
Argentina
Brazil
Canada
Ecuador
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Peru
Trinidad and Tobago
USA
Venezuela

Europe
Austria
Belgium
Bosnia-Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Finland
France
Germany
Greece
Hungary
Italy
Macedonia
Netherlands
Poland
Romania
Russia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
United Kingdom
Yugoslavia

Africa and the Middle East
Algeria
Egypt
South Africa
United Arab Emirates
Zimbabwe

Australia

Asia
China
India
Indonesia
Korea
Malaysia
Singapore
Sri Lanka
Taiwan
Thailand
Vietnam

Industrial Gases

Gases
Messer produces and distributes industrial gases such as oxygen, nitrogen, argon, carbon dioxide, hydrogen, and a range of rare and high-purity gases. Our range of activities includes everything from the operation of air separation plants to on-site gas supply systems on customer premises.

Application Technology
The Messer Group develops and markets a wide range of processes for using gases across different areas like industry, research, agriculture and the medical sector.

Advanced Gas Systems
Messer's capabilities cover all gas production technologies. The Group designs and builds both non-cryogenic (molecular filter and membrane technology) and cryogenic systems with capacities of up to several thousand cubic meters per hour.

All over the world, Messer products and technologies play a role in our lives, even in ordinary households. They help purify the water we drink and preserve the quality of the food we eat. They protect the environment with systems for processing and decontaminating waste products. Many of the materials used to build our homes also benefit from Messer products: from steel and glass to plastics and paints.

Messer Group Key Data

DM million (consolidated)	1999	1998	1997	1996	1995
Net sales	3 436	3 372	2 806	2 470	2 392
Cash flow arising from operating activities	662	614	473	521	423
Operating profit	253	400	370	330	303
Income before minority interests	1	205	193	184	164
Stockholders' equity	1 442	1 448	1 394	1 165	981
Investments	1 088	1 302	812	572	499
Employees (on December 31)	10 008	11 289	8 282	7 235	7 347

A brief overview of applications developed and distributed by Messer. Some of these interesting solutions with industrial gases can be found also within this Annual Report.

1
Chemical Industry
Reactive gases for production purposes, inert gases for protection against fire and explosion, environmental technology, cryo-technical processes (controlled cooling, cold grinding, biotechnology), oxygen for combustion processes, specialty gases for laboratory applications.

2
Environmental Technology
Water, drinking water treatment, waste water treatment, water protection, fish farming. Recycling. Air: emissions controls, waste air purification; measuring and control. Technology: gas chromatography, treatment of industrial refuse; residual gas recovery, disposal of toxic gases; hydrogen and natural gas technology.

3
Metallurgy
Heat treatment: annealing, hardening, carburizing, nitriding, soldering, sintering. High-temperature processes: melting, combusting, purging, cleaning. Glass production: oxy-fuel heating, protective gas supplies for the production of sheet and plate glass.

4
Industrial Processes Technology
Inerting: processes for the prevention of dust explosions and smoldering fires. Cryogenic techniques: use of liquid nitrogen (recycling plastics and soil freezing in civil engineering).

5
Healthcare
Cryotherapy, cryo-preservation, cryosurgery, laser surgery, gases for therapy and diagnostics (clinical care), home care.

6
Specialty Gases
Glass fibre production, gases for laboratory applications, filling gases for insulating glass; fluorination, e.g. surface treatment of plastics.

7
Food Technology
Refrigeration technology: flash freezing, inert gas packaging, transport refrigeration, cold grinding without caking, dry ice refrigeration. Biotechnology: freezing biological substances, cold decomposition of living cells, freeze-drying without CFCs. Beverage treatments: increased shelf life, beverage drawing gases, supply and storage systems, packaging and storage.

8
Electronics
Specialty gases for electronic components, including semi-conductors and PC boards. Consulting, planning, installation and start-up of gas supply systems.

9
Gases for Cutting and Welding
Argon, argon mixtures, helium, acetylene, oxygen and nitrogen plus a wide range of newly developed products for steel and aluminum materials in oxy-fuel and laser technology.

1999–
Global Integration

1999 marked the start of the second phase of Messer Group's ten year strategic plan. During this, Messer will consolidate its position as one of the world's leading industrial gases companies. Through its global operations, Messer Group will leverage its know-how, the skills of its people and its worldwide market presence. The objective remains to achieve the highest return on shareholders' equity in our industry.

Herbert Rudolf
Chairman of the Board of Management of Messer Griesheim GmbH
With the Messer Group since 1965 and Chairman of the Board of Management of Messer Griesheim GmbH from 1993 until retiring on December 31, 1999

Dr. Klaus-Jürgen Schmieder
Chairman of the Board of Management of Messer Griesheim GmbH, Member of the Board of Directors of Hoechst AG, responsible for Finance, until the end of 1999. Chairman of the Board of Management of Messer Griesheim GmbH since January 1, 2000

We would like to thank all our employees around the world for their personal commitment to our customers and the development of Messer Group during a difficult time.

During 1999, major changes took place in our industry. The acquisitions of AGA by Linde and of BOC by Air Liquide and Air Products will result in a major change of the global market structure in our industry.

The negotiations between Linde and Hoechst regarding the sale of the Hoechst stake in Messer to Linde were called off at the beginning of 2000. Management will now develop strategic options for Messer Group and discuss these with both shareholders. It had already been decided that Messer should concentrate on its activities in industrial gases and advanced gas systems. These are the Group's core businesses and the areas with the greatest potential.

Therefore, in December 1999, a transaction between Hoechst, Messer Griesheim GmbH and Messer Industrie GmbH was announced whereby the Cutting & Welding activities will be transferred to Messer Industrie GmbH. Messer Industrie GmbH is a shareholder in Messer Griesheim GmbH together with the majority shareholder Hoechst, a subsidiary of Aventis.

The Cutting & Welding Group accounted for 16.4 per cent of the consolidated sales of Messer Group in 1999. Profits amounted to DM 17 million, equivalent to 6.7 per cent of the consolidated net profits of Messer Group.

The stated objective of our shareholder Aventis remains to focus its business portfolio so as to become one of the world's leading life science groups. Aventis will therefore divest itself of its stake in Messer Group. However, Management does not believe that this perspective should adversely affect the strategic development of Messer Group itself. Messer is now firmly focused on those sectors of the industrial gases market in which it is most strongly positioned and able to compete profitably worldwide. It is therefore an attractive business with a variety of strategic options going forward.

Year of consolidation

From 1993 to 1998, the growth of Messer Group was driven to a significant extent by acquisitions designed to extend and strengthen the Group's presence in key markets and locations. By the end of 1998, Phase 1 of the Group's ten year strategy had been substantially completed. During 1999, Messer Group started to implement Phase 2. This is based on organic growth and consolidation.

These changes, which are part of a continuous programme of organizational evolution, ensure that the Group's technical know-how and process skills, market knowledge and customer relationships are combined to maximise their long-term value.

Global markets

As a worldwide Group, it is inevitable that the performance of individual business units will vary between markets in response to different economic and competitive pressures. In 1999, Messer Group increased sales by 1.9 per cent to DM 3,436 million.

The operating profit of DM 253 million, was significantly lower than the previous year. This is a disappointing result and is attributable to a combination of factors, many of which are now behind us. These included turbulent economic conditions and pricing pressure in some of Messer's largest markets; including those in Germany, Southern America and parts of Asia. A number of new air separation plants also experienced unexpected start-up delays, which reduced revenue opportunities in 1999.

In North America, profitability was adversely affected by the influence of the Asian economic crisis on the steel and petrochemical industries in the US, resulting in lower margins in Messer's pipeline business.

Management priorities

The Board and Management of Messer Group are committed to reversing the disappointing performance in 1999 by maximising the economic value of the Group's assets and focusing on improving the profitability of each business unit.

Many of the difficulties of 1999 are now behind us and Messer Group starts the Millennium with a strong business portfolio and organization.

Messer will focus on three key measures of business success: innovation leadership in both application and production technologies; outstanding customer service; and higher returns on shareholders' equity.

These are ambitious goals, but they are achievable because of the strengths that Messer Group has built up over the last five years. These include a global network of business units, able to deliver Messer's world-class portfolio of industrial gas technologies and services to all key markets.

Even more important is the contribution made by Messer Group's employees. Hardworking, technically talented and market-focused, they are Messer Group's single most important resource. Their ideas and innovations, and the way they work together and with customers will drive the next phase of the Group's growth.

As I, Herbert Rudolf, retired on December 31, 1999, the continuing development of Messer Group will be led by Dr. Klaus-Jürgen Schmieder, who is my successor as Chairman of the Board of Directors of Messer Griesheim GmbH. I would like to thank all our staff, business partners and customers for their excellent cooperation over so many years and ask that you show the same loyalty and trust to my successor. I am sure that, together with our worldwide staff, he will lead Messer Group into a successful future.

Herbert Rudolf

Herbert Rudolf
President of the Messer Group
(1993–1999)

K. Schmieder

Dr. Klaus-Jürgen Schmieder
President of the Messer Group
from January 2000

Management Report of Messer Group 1999

Having substantially completed its worldwide acquisition program, Messer Group has pushed ahead with the integration of its new companies and is now focused on organic growth. Economic conditions were less favorable than expected and had a negative effect on the Group's results.

Growth declines

Messer has 177 subsidiaries, operates in 55 countries and is well represented in all the world's major markets. The performance of Messer Group particularly depends on the economic conditions in its biggest markets and those where it has made large-scale investments.

Economic developments in Latin America and Asia had a particularly negative impact on the Group's results. Weak economic performance in Latin America was associated with a decline in the industrial gases market. This was made worse in Brazil by a large devaluation in the currency. Messer companies in Latin America are still suffering from these events. High interest rates and the cost of additional plants also held back the Group's results in 1999.

Business developments in Asia were varied. Positive performance was experienced in India, Indonesia and China. Unfortunately, plans to bring an air separation plant in Malaysia on stream were delayed and corresponding provisions had to be made.

Messer was also disappointed by the growth of its business in the USA and Germany. Intense price pressure in highly competitive market conditions and the generally poor economic performance of Germany were the main factors involved. Positive developments in other regions were insufficient to offset the decline.

Globally, the Group was able to maintain its market share, thanks to the dedication and commitment of its employees.

Cutting & Welding activities transferred

The Group's Cutting & Welding activities were transferred to the co-shareholder of Messer Griesheim GmbH, Messer Industrie GmbH, at the end of the financial year. This affects the comparability of 1999 data with the previous year. Figures for the Cutting & Welding Group are not included in the consolidated balance sheet for Messer Group at 31.12.1999, nor in other values and figures struck at that date. The profit and loss account, and supplementary information that refers to income and expenditure, includes the Cutting & Welding operations.

Slight increase in sales

Sales for Messer Group (the consolidated Group comprised 60 companies; 8 Cutting & Welding companies were excluded) rose from DM 3,372 million in 1998 by 1.9 per cent to DM 3,436 million. Of the DM 64 million net increase, a positive variance of DM 164 million was attributable to changes in the consolidated group and DM 9 million to the conversion of sales achieved in foreign currencies with higher exchange rates. This was partly offset by the impact of reduced sales because of lower sales prices (DM 46 million) and the decline in bulk sales (DM 63 million).

Results decline

Operating results were DM 253 million in comparison with DM 400 million in the previous year. The fall was caused by lower margins and higher sales and general administration costs, as well as a reduction in other operating income.

The transfer of the Cutting & Welding operations resulted in a loss of DM 28 million. This arose from the provisionally calculated sales price and the de-consolidation of assets and debts owed by Cutting & Welding.

Financial results were DM 52 million below the previous year. The main reasons for the decline were the negative results from associated companies – particularly the requirement to set up a provision of DM 22 million for the air separation plant in Malaysia – and interest expenses. These rose by DM 46 million in comparison with 1998, mainly because of the increase in financial debts associated with the Group's investment program in additional capacity.

Profits before tax on income fell to DM 83 million, from DM 310 million in 1998. However, taxes on income fell by only 22 %. The main factor contributing to this disparity are differences in the treatment of certain income streams and investments. These led to a particularly high tax burden in Europe and the USA. Although this has been partly offset by losses in other regions, particularly Latin America, opportunities for offsetting taxation are limited and deferred tax assets have been established only to a limited degree.

Profits after tax amounted to DM 0.5 million compared with DM 205 million in 1998. After deducting dividends paid to other shareholders, the Group reported a loss of DM 14 million (1998: DM 189 million profit).

Cash flow from operating activities was DM 662 million and exceeded that of the previous year by DM 48 million. Cash flow for investing activities totaled DM 929 million, requiring a net cash contribution of DM 206 million from financing activities. The capital expenditures during the reporting period were partly funded by proceeds from the sale of tangible and intangible assets and operating cash flow (as in the previous year). The remaining funds required were covered by an increase in financial debt and from liquid assets.

Financial commitment rises

At the end of 1999, the balance sheet total of Messer Group amounted to DM 5,893 million, 17 per cent higher than the previous year. The increase resulted from the high investment program in fixed assets.

The decrease in financial assets, inventories and accounts receivable and the increase in other receivables and other assets is primarily attributable to the transfer of the Cutting & Welding operations from Messer Griesheim GmbH to Messer Industrie GmbH.

Stockholders' equity remained nearly the same at DM 1,442 million and represents 24.5 % of the balance sheet total. This compares with 28.7 % at the end of the previous year. The increase in earnings reserves was offset by the decline in results. The ratio of stockholders' capital, shares of other stockholders and long-term corporate debt to fixed assets was 94 % (104 % in 1998). The capital and cover ratios will fall further due to the high dividend to be paid by Messer Griesheim GmbH.

It was only possible to finance part of the global growth of the Messer Group using the Group's own funds. As a result, corporate debt increased by DM 645 million to DM 2,745 million. The debt/equity ratio was 1.9 (compared with 1.5 in the previous year).

Investments down

Investments by Messer Group fell in 1999, but were still at a relatively high level.

Investments in fixed and intangible assets were DM 905 million, slightly below the 1998 level. Financial investments at DM 183 million represented around half those made in 1998.

Investments in financial assets were made through increases in capital, the formation of new companies, the acquisition of companies and loans. New companies were acquired, amongst others, in Asia, Africa and Central America.

Our employees

The number of employees in Messer Group fell from 11,289 at the end of 1998 to 10,008 at the end of 1999. Prior to the transfer of the Cutting & Welding companies, with 1,441 employees, the number of employees in Messer Group was 11,449. This figure contains 741 employees which are included because of the expansion in the number of consolidated companies. 27.5 % of the workforce was employed in Germany (1998: 29.0 %); 35.9 % in Europe (excluding Germany), compared with 40.6 % in 1998; 20.4 % in America (1998: 18.2 %); 13.0 % in Asia (1998: 9.6 %) and Africa 3.2 % (1998: 2.6 %).

Risk management and business risks

The law on the "Control and Transparency in Corporate Areas" (KonTraG) sets out specific requirements in the areas of corporate control and financial risk. These include the installation and documentation of an early risk detection system and an obligation for the management to report to the supervisory board and shareholders on risk factors which could endanger the continuing existence of the company. In compliance with this legislation and for its own purposes, Messer has been employing risk detection systems for a long time. Messer Group has an extended early risk detection system which includes formal definitions and which is supplemented by management information and control systems. These are an integrated component of the standards of the Hoechst Group.

Throughout Messer Group, company and industry sector risks are systematically identified and evaluated with respect to their potential financial impact and their probability of occurrence. The control systems involved are continuously updated and, in addition to the annual control process, provide regular early reporting to the Management and notifications to the Supervisory Board.

New systems and processes for the use of industrial gases will be of decisive importance for the competitiveness of the Messer Group in the coming years.

Messer will continue to press ahead with the ongoing strengthening of core competencies by examining the efficiency of its internal organizational structures.

The optimization of work processes also makes an important contribution to the effectiveness of the Group's internal control systems. The efficiency and reliability of work process and associated control systems is checked regularly by the relevant specialist departments and also by the corporate auditing. Appropriate corrective measures are introduced wherever necessary.

The risks controlled through the Group's risk management system have various sources. The instruments used to record and manage risks are tailored to each individual risk category.

Risk monitoring covers the areas of Purchasing, Production, Sales, Marketing, Research & Development, Engineering, Accounting, Finance and Management. Differentiation is also made between internal and external sources of risk. Sources include employees, contractual relationships, electronic data processing, damage to the environment, health and safety, market risks, financing risks, natural occurrences and political risks.

Market and financing risks have particularly grown as the Group has globalized. Intensive competition for customers, as well as enormous pressure on prices, have increased the Group's risk profile in both developed markets and those developing countries where Messer is hoping to gain market share, where the Group may also have made a considerable investment.

Measures the Group is taking to address these issues include consistent productivity and cost management as well as focusing on high quality customer-oriented products and services. Despite all these measures, competition may well continue to intensify and have a negative effect on earnings and performance. The Group also faces interest and exchange rate risks in its operational business. Measures being taken to counteract these risks include hedging transactions with both original and derivative finance instruments. These measures are supported by strict controls over foreign exchange management, with clearly stipulated responsibilities and approval procedures.

Research & Development remains at high level

Expenditure by Messer Group on research and development in 1999 was DM 49 million (1998: DM 55 million). New applications and processes for the use of industrial gases will be decisive to the competitiveness of Messer Group in the future. The new record of registering 105 patents (1998: 77) was particularly gratifying. The number of inventions registered, 125, (1998: 130) also maintained its high level. This performance underlines the importance of our employees' skills and qualifications and the quality of the Group's 'know how' resources.

The research & development program encompasses a wide range of applications for different industry sectors, from the food industry and communication technology to steel processing. Technologies and applications developed by Messer through its R&D program formed the basis of significant contracts with new customers, an important indicator of the market orientation and competitiveness of the new products.

High priority for safety

Worldwide, Messer's accident level in 1999, per million hours worked, was 2.4. This was slightly higher than that achieved in the previous year (2.2). While there were no accidents in the Advanced Gas Systems group, the highest accident rates occurred in Messer companies in North America and in the Cutting & Welding group. Accident rates ranging between 0.9 and 2.0 in Latin America and in Eastern and Western Europe, confirmed the success of the safety policies of Messer Group companies in these regions.

Outlook for 2000

Messer Group will focus on the next phase of its strategy in 2000. This is centered on continuing high organic growth, driven by prior investments, and the consolidation of its worldwide activities following a period of rapid globalization. Now that the intended sale of the Hoechst share of Messer Group to Linde has been called off, Messer will explore additional opportunities to achieve a long-term and forward looking structure for the business.

On-site gas supply contracts will continue to be pursued aggressively and combined with innovations in applications technology, new marketing opportunities and business process reengineering. Meeting customer requirements is the most important element of our business strategy. The Group will continue to improve the quality of customer service and internal business flows. Within the scope of its globalization strategy, Messer Group will make the necessary adjustments in its investment portfolio to achieve its targeted financial performance. Changes made may also reflect regional economic environments, such as Latin America, where developments have not been as positive as expected.

Messer's Global Application Technology group systematically coordinates and directs all research and development activities in application technology. New processes and technologies in the key market segments of electronics, food, recycling, water treatment, glass and metallurgy offer high market potential.

The operation of large-scale on-site systems by our Global Operations group resulted in improved performance and efficiency during 1999. In Europe, central plant monitoring and benchmarking yielded remarkable gains. This activity positions Messer well for additional cost management opportunities, based on experience and the knowledge transfer of key competencies.

The growing use of Information Technology is well recognized as a success factor for any enterprise. Messer will maximize growth opportunities through the use of the Internet and e-commerce throughout our business processes. These projects have been initiated and are expected to deliver results in 2000.

Messer will prepare itself for new challenges in the international marketplace. By closely examining the efficiency of its internal organizational structures and introducing changes where necessary, the Group will strengthen its overall performance capabilities, add necessary skills and reinforce its core competencies.

Messer Group anticipates that differences in economic growth rates around the world will diminish during 2000, reducing foreign trade risks. In contrast, 1999 was characterized by considerable differences in the economic performance of Europe, the United States and Asia.

In 2000, Messer expects an economic turnaround in Europe and that this will be beneficial to the Group and lead to a stabilization in the Group's operating performance in Europe. Messer will expand its current operations by building new air separation plants in the Rhein/Ruhr pipeline compounds in Duisburg and Gelsenkirchen. A production facility for Carbon Monoxide will be incorporated in the network for the first time. The foundation of an independent company for the production of cryogenic containers, as well as the expansion of the specialty gas plant in Krefeld-Gellep will help to meet the future demands of customers with the highest quality service and product requirements.

In Western Europe, the UK economy is operating at an above average rate. Other countries in the European Currency Union are also seeing favorable increases in activity. In the UK, Messer's CO_2 business is performing strongly. The CO_2 group will introduce new quality standards to meet increasingly high customer quality requirements. In the other countries, additions and improvements in the product portfolio have priority. In France, Messer expects that the expansion of its product line will result in a significant improvement in its cylinder gases business.

In Eastern Europe, Messer anticipates continued operating pressures due to low prices and aggressive competition. Messer will continue developing new market segments, including its presence in the food industry, electronics sector and medical field. There are many countries in Eastern Europe where customers, including heavy industrial producers, are facing financial difficulties. Through better coordinating its activities in Eastern Europe and achieving additional internal synergies, Messer believes that it will be able to maintain its current market share.

In the United States, a slight weakening of economic growth is expected in 2000. But Messer believes that the continuing recovery of the steel and chemical industries, which started near the end of 1999, will generate higher demand and increased sales for pipeline gases. For liquid atmospheric products and CO_2, strong contract signings are expected to result in higher plant utilization rates and additional revenue growth.

In Latin America, the Group expects a slight recovery in the weak economic environment. At the forefront of Messer's activities will be several initiatives to increase sales, with related gains in plant operating rates and operating results.

In Asia, Messer Group is looking forward to a recovery in the region's economy. Markets benefiting from high investments in prior years, such as China and Singapore, are now in a position to capitalize on increases in demand. In China, a number of on-site plants went on-stream in 1999 and will contribute to further sales growth in 2000. In Singapore, the commissioning of a specialty gas plant has increased the Group's market potential. With the completion of the gas complex on Jurong Island, the future center of the petrochemical industry in Singapore, Messer has the opportunity to achieve markedly higher sales and become one of the major suppliers in the region.

Overall, Messer is expecting an improvement in sales and financial performance in 2000. Although the impact of the concentration that is taking place in the industrial gases industry cannot yet be completely assessed, one thing is certain. Messer remains an aggressive and highly competitive enterprise.

The company will continue to demonstrate leadership with creative programs for cost optimization, innovative application technologies, continuous customer service improvements and the progressive development of its on-site technology. Messer Group is full of talented people committed to delivering the best industrial gas and equipment solutions to our customers.

New applications made a significant contribution to the development of Messer's industrial gases business in 1999. Investments made in new capacity and distribution networks helped drive business performance in many markets.

Western Europe

Sales revenues in Western Europe declined by 4.4 % to DM 1640 million. Operating profits were also down on last year's figures, because of the ongoing price pressure in the region.

During 1999, the industrial gases market in Germany was marked by continuing competitive pressures and depressed prices in key sectors. Liquid gases suffered a decline in volumes and revenues and the cylinder and specialty gases businesses were also adversely affected, particularly in the medical sector.

However, Messer's pipeline and on-site systems businesses performed strongly and above budget. This contribution, combined with improvements in productivity and the impact of continuing cost cutting programmes, meant that the operating profits in Germany in 1999 were comparable to the level achieved the previous year.

The performance of Messer Medical was depressed by severe price pressure in the market supplying liquid oxygen for hospitals. The impact of this was partly offset by the strong performance of Messer's Home Care business, which is now one of the leading companies in this sector in Germany. Market share increased in 1999 through the acquisition of a majority stake in a distribution company. This extends Messer's network and the expansion of its product range. Growth areas include long-term oxygen therapy, the treatment of sleep problems, artificial respiration and monitor controlled baby supervision.

Messer's industrial gas pipeline business provides a large number of major customers with a secure and environmentally friendly source of supply. Messer operates a pipeline network of over 550 kilometres, primarily in the Rhine/Ruhr region. This network is fed from seven air separating plants.

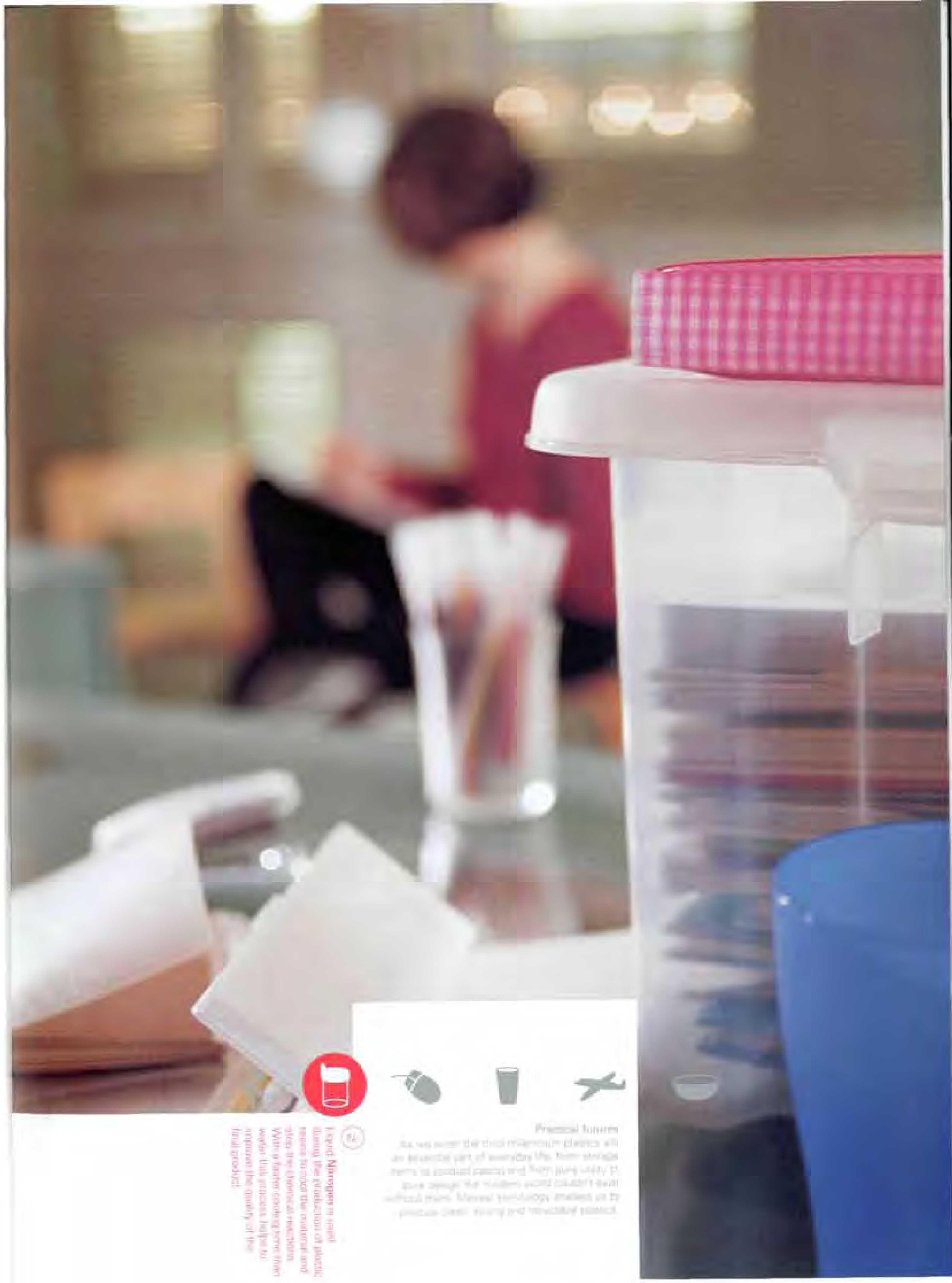
The new plant at Oberhausen came into full production during the year and two additional units, at Duisburg and Gelsenkirchen, will be connected to the network in 2001. A plant to supply Carbon Monoxide to the pipeline system is also under construction. Messer's investment in the system will exceed DM 240 million in 2000, ensuring that future demands can be met.

The program to convert customers from truck delivery to on-site production, which provides both financial and environmental benefits, developed during 1999. Two on-site plants for hydrogen production were commissioned during the year, underlining Messer's leading position in the on-site market in Germany.

Although Messer's liquid gas business came under market pressure in 1999, significant new business was generated during the year. The benefits of this will mostly start to be felt in 2000. In addition to the supply of nitrogen, oxygen and argon, Messer has introduced carbon monoxide for burning in electro-arc furnaces. Other new applications stimulating demand for Messer's bulk gases include the frosting and pelleting of foodstuffs.

The expansion of Messer's specialty gas plant at Krefeld-Gellep also signals the company's commitment to technological innovation and leadership. Developments during the year included the launch of systems for the calibration of exhaust measuring equipment and the transfer of know-how to Messer's specialty gas plants in Singapore and other markets.

During 1999, Messer also successfully launched a fully computer-controlled automated filling system for 300 bar cylinders connected with the traditional 200 bar system. Benefits from using the higher pressure cylinders, which are now available on a global basis, include reduced handling and improvements in cylinder management and supply logistics.



Practical futures

In the United Kingdom, Messer maintained its market share in the face of increased competitive activity and a lack of movement in the overall market for industrial gases. Messer UK maintained its position as market leader in the bulk carbon dioxide sector and signed the first major contract for the on-site recovery of CO_2 in the brewing industry.

Messer's technical cylinder gas business continues to show improvement in the UK and during the year a major depot redevelopment programme was completed. In the on-site sector, the supply of nitrogen systems for the oil industry continues to show fast growth and good potential.

In France, Messer's share of the oxygen, acetylene, nitrogen and argon markets increased during the year. The mainstay of sales was CO_2. The company improved its position in Southern France by opening a new plant in Carbon Blanc. The plant is fully automatic and fitted for 300 bar cylinder systems. New product launches included Cryonic: liquid carbon dioxide for the medical treatment of oedema and rheumatism and also post-operative rehabilitation. New contracts in 1999 included Coca Cola, Pasquier (bread and cake manufacturing) and Sorbet Delices (ice cream).

Argon, nitrogen and helium continued to be the most important products for Messer in Switzerland. During 2000, work will start on a new filling plant for technical gases, co-located with the headquarters of Messer in Lenzburg.

Messer was able to further develop its regional presence in Italy. Along with products such as dry ice, where the main growth occurred, other leading sectors in terms of sales continued to be CO_2 for the beverage industry and argon for the production of stainless steel. Investments were made in on-site projects, distribution equipment and the introduction of SAP.

In Sweden, Hydrogas-Messer performed strongly and the company is now market leader in the dry ice sector. In 1999, Messer's 300 bar cylinder system was launched and new customers included Ovako Steel. Cylinder gases also showed the highest growth in Finland, where Messer Suomi Oy benefited from a significant increase in sales and market share in 1999.

Central & Eastern Europe

Sales and profits in this region at DM 416 million and DM 46 million respectively, exceeded the previous year's figures. This was despite the negative impact of the war in Yugoslavia on some of Messer's operations in the area.

Messer in Austria again increased its market share. Oxygen for use in environmental applications had one of the highest growth rates. Major projects completed by Messer Austria during the year included a turn-key plant in Latvia for ELME Messer and a nitrogen generator for use in metal sintering for the vehicle industry.

During the year, Messer Austria merged with C Franzel & Söhne and the electronic gases business of Messer Austria was transferred to Messer Nippon Sanso Austria. Messer Austria is the only industrial gas company in Austria which has ISO 9001, ISO 14001, EMAS, ISO 46001, and EHS certification. In May 1999, the company was officially presented with the Certificate of Responsible Care by the Minister for Economic Affairs.

Messer Hungarogáz maintained its market share and position as the largest industrial gas company in Hungary, despite increased competition. New products launched in 1999 included: Messer's Pulmonox system; dry ice and dry ice spray systems and oxy-fuel equipment. New contracts were signed with Traverz and Thyssen, Robert Bosch, Huntsman and Extruplast. The company's after-sales operations were reorganized during 1999 to improve the quality of service provided to customers. Other projects included the introduction of telemetric monitoring systems at key customer sites and the expansion of the company's network of sales centers.

The Polish gas market expanded rapidly in 1999. Following the merger of Messer's subsidiaries in Poland in 1998, the company's competitiveness, market share and sales revenues all increased substantially. In 1999, Messer Polska acquired a majority share in the gas supply company Gryf Gaz, the market leader in North-West Poland, extending its market presence significantly. The biggest projects completed in 1999 have been Europe's most modern acetylene plant in Chorzow and a cylinder filling plant near Wroclaw.

In July 1999, Messer Croatia Plin and Messer Tehnoplin were merged into a single company. Although the merged company, Messer Croatia Plin, is still market leader in Croatia, competition is increasing fast. Products launched during the year included Pulmonox. This has been approved for funding by private health insurance companies and will strengthen the company's position in the rapidly growing medical market.

Messer Slovakia received an important quality award in 1999. The fastest growing sectors include argon and argon mixtures. These products were also successfully marketed by Messer Technogas in the Czech Republic. Major new customers in the Czech Republic in 1999 included companies operating in the glass, chemical and metallurgical industries.

Conditions were difficult in Bosnia in 1999, where the market contracted and major customers scaled down their requirements. The best performing sector was specialty gases.

In Slovenia, three new on-site production plants were completed and the on-site production of hydrogen and nitrogen introduced to the market.

Messer Chimco Gas in Bulgaria suffered from disruptions to its supplies of oxygen, nitrogen and argon from Yugoslavia. To maintain customer service, alternative supplies had to be substituted. In Turkey, Messer's operations were disrupted by the earthquake, although better economic conditions in 2000 are expected to lead to an improvement in the company's performance.

Americas

Messer Group's sales in the Americas increased by DM 3 million to DM 679 million in 1999, but profits were below expectation. Latin America reported a significant loss. This was partly due to delays in starting new plants and a number of planned plant closures for maintenance.

MG Industries improved its market share of the US market, with merchant liquid sales of nitrogen, oxygen and argon being the strongest revenue segment. These gases are delivered to a broad segment of customers. Bulk argon and Argomix, used by light metal manufacturers and fabricators, showed strong growth as did oxygen and nitrogen.

The performance of Messer's pipeline business in the US improved in the fourth quarter, although it continued to be adversely affected by the influence of the Asian crisis on steel producing companies. Growth areas included pipeline oxygen and compressed air. New on-site plants came on stream during 1999 at a number of major customers. These included Owens Corning, DuPont, AK Steel and AVX.

MG Industries strengthened its position in the CO_2 market by taking 100 per cent ownership of a Mississippi production facility. Cylinder sales improved in 1999, partly due to two acquisitions which expanded the company's service capabilities, particularly in the North East of the US.

Other organizational changes made in the US in 1999 included the launch of a Regional Sales and Logistics Organization to provide direct customer accountability across six regions. The Pipeline Services Group was also more closely aligned geographically with the Merchant Products Group. A new structure has been introduced to support the development of the company's cylinder business.

MG Industries of Canada continued to show a strong growth in sales, with medical supplies the most important sector. The company has expanded its network of sales branches to cope with the additional business.

Messer Griesheim do Brasil introduced a range of new products in 1999. These included cylinder gases, welding mixtures, specialty mixtures and CO_2. New operations that came on stream in 1999 included a hydrogen plant, CO_2 plants in Suzano and Cintra and an air separation plant in Rio de Janeiro. The fastest growing sectors for Messer in Brazil include liquid oxygen for medical use, liquid argon and Argomix.

In Trinidad and Tobago, sales of liquid nitrogen and CO_2 were particularly strong, with major customers being acquired in the beverage and bottling industries.

Asia & Africa

At DM 139 million, sales in Asia and Africa were 32 per cent up on 1998. Profits did not meet expectations, largely due to economic conditions in Asia and start-up delays of new air separation plants in China and Singapore.

In Singapore, specialty gases made major inroads into the local market, although the growth in sales of compressed technical gases was more modest. A new specialty gas facility was opened in April 1999 and has led to the development of Messer's sales in the Singapore market. The new air separation unit on Jurong Island is expected to go on stream in July 2000. This will also contribute to an improvement in Messer's performance in the area.

Messer's business in China continues to develop, with major supply contracts being awarded in 1999. Most of these were in the electronics and automobile industries. On-site systems are an important part of Messer's business in China; six facilities came on stream in 1999.

In Thailand, high levels of excess capacity in the industry continue to constrain the profitable development of Messer's business. Nevertheless, Messer's high quality helium product was successfully launched in 1999 and has shown rapid growth.

Conditions also remained difficult in Indonesia, but new business has been acquired across a wide range of business sectors, from agriculture to cement manufacture. Five on-site plants went on-stream in 1999.

In India, the Bombay Oxygen Corporation increased market share, benefiting from the restarting of its plant in Nira. A new air separation unit is under construction in Kalwe.

Fedgas in South Africa experienced a small increase in market share in very flat economic conditions. New product launches included the use of oxygen for sugar decolourization and iron precipitation in mine discharge water. The highest growth areas were dry ice, liquid petroleum gas, oxy-fuel and environmental gases.

The supply of CO_2 to the beverage industry continues to be the most important sector for Messer in Egypt, but inroads were made into a new market segment, with substantial contracts being won for on-site services in the steel industry.

Our market: Advanced Gas Systems

On-site systems are an attractive alternative for many types of customer. Messer has an excellent track record in delivering high performance turn-key systems.

The Advanced Gas Systems (AGS) group of Messer specializes in the design, development, installation and operation of on-site gas systems for Messer companies and customers worldwide. Messer fulfils individual customer needs by offering all on-site technologies and capacities.

On-site plants have significant advantages over traditional delivery channels for many industrial processes. These include economic performance, security of supply and operational control. There are also environmental benefits, particularly a reduction in vehicle movements.

On-site systems play an important role in the development of the petrochemical and steel industries in the world's fastest growing economies, where on-site turn-key gas plants frequently provide the optimal supply solution. In Europe, environmental and planning issues increasingly favour on-site systems. This is the fastest growing segment of the world's industrial gases market.

Worldwide operations

Messer's AGS business units are located around the world, with their headquarters in the US and Germany. Total sales were up on the previous year, with the biggest growth coming from hydrogen plants. Technological developments focused on non-cryogenic oxygen and nitrogen systems.

Twelve new cryogenic projects were started in 1999 and an additional seven plants were under construction at the year-end. 149 non-cryogenic projects were also completed in 1999.

With a total of 52 membrane systems installed in 1999, MG Generon once again underlined its leading position in the market.

1999 was also a successful year for Messer AGS, Hanau/Germany, which experienced a 30 per cent increase in sales. Nearly three-quarters of sales were in the cryogenic air separation systems sector, with the balance being attributable to nitrogen generators and cryogen tanks and equipment. All new contracts signed in 1999 were on a turn-key basis, where Messer AGS has complete responsibility for planning, design and construction through to final commissioning. With several major projects in progress, the company will be working at full capacity well into 2000.

Mahler AGS provides a family of cost-effective and reliable on-site generation systems for oxygen, nitrogen and hydrogen. These systems are among the most competitive on the market. In 1999, Mahler signed contracts for a number of steam reforming hydrogen plants in conjunction with Messer companies in Europe, and also with third-party customers in Asia. Most of these plants will go on stream in 2000.

N

Nitrogen is used as inert gas in the production of semiconductors. Inert gases create a chemically pure and dust-free manufacturing environment which reduces the error rate in the production of semi-conductors.

Technological worlds

The reliable operation of computers is becoming increasingly important for our everyday lives to function without problem. Whether starting the [illegible] or relaxing with a game, the computer has to work in the background – because we hardly notice a technology that is functioning perfectly. And that is what we need.

Creating safety

Messer On-Site-Systems

Cryogenic air separation	Non cryogenic air separation	Hydrogen and synthesis plants	Plants for other gases
Nitrogen generators Oxygen generators Air separation systems (O_2, N_2, Argon)	PSA systems (N_2) Membrane systems (N_2, H_2) PSA systems (O_2) VPSA systems (O_2) VSA systems (O_2)	Electrolysis plants Steam reformers Autothermal catalytic reforming process Partial oxidation (POX)	CO_2 recovery Ozone systems

1999 Sales by region

1999 Operating profit by region

1999 Capital expenditure by region

During 1999, the first VPSA oxygen plant utilizing Mahler's advanced LI-X molecular sieve was successfully commissioned. This and other VPSA plants can be remotely controlled from an off-site operations center. Other Mahler systems are used for the incineration of waste gases and liquid residues (ARV) and for catalytic waste gas oxidation. Mahler's Rekusorb system recovers solvents from waste gases by adsorption and inert gas deadsorption.

In 1999, a German pharmaceutical company placed one of the largest orders ever received by Mahler. This is for a sophisticated ARV system for incinerating explosive waste gases and liquid residuals that contain complex hydrocarbons and inorganics – including halogens and sulphur.

In 2000, Messer's AGS business will be enhanced by the integration of SMC (China) and Italfilo (Italy). These will strengthen Messer Group as a truly global supplier of AGS technologies and on-site systems.

Wedeco – specialist in water treatment

In August 1999, Wedeco, which specializes in the treatment of water using ozone and ultra-violet (UV) light technologies and in which Messer holds a stake of 31.8%, merged with the Swiss company Katady Produkte AG. The new entity, Wedeco AG Water Technology, is market leader in Europe in the development, installation and operation of ozone and UV water treatment systems, for both consumer and industrial markets. Applications include: drinking water disinfection, sewage processing and the treatment of industrial process water. The company operates in over 80 countries and worldwide over 35,000 Wedeco systems are in operation.

The merger was followed by the IPO of Wedeco AG Water Technology in October 1999 on the Frankfurt Stock Exchange in the SMAX market segment. The introduction of new capital creates exciting prospects for the company.

The Cutting & Welding business was established as a stock corporation in 1998. In this, profitability and shareholder value increased significantly. In 2000, the unit will be transferred to new owners. This will free up resources within Messer Group and create a stronger growth platform for both businesses.

Although the Cutting & Welding group saw a small decline in sales in 1999 to DM 565, profits increased about DM 7 million to DM 17 million. The sales performance reflects the difficult market conditions in which the group continued to operate in 1999, especially in Western Europe and the US. In 1999, the Cutting & Welding group was structured into three business units: Cutting, Welding and Diversified Products.

During 1999, the Cutting Business Unit launched a major new line of laser cutting systems. These were targeted at a range of customers, including those with thick metal and fast positioning requirements. Other systems in the range are directed at customers working thinner sheets, but where quality requirements are higher. Customers placing new orders with Messer in 1999 included Oxeestaal and Olympic Steel.

Key sectors for the Welding Unit in 1999 were the automotive and aerospace industries. Major new orders were obtained from Volkswagen, BMW, DaimlerChrysler and Nissan in the automotive industry and Rolls Royce in aerospace. Shipyards were also a significant source of new business for the Welding Unit. Customers included Daewoo and Hyundai (for their yards in China). Product developments during the year included the joint development of an igm-Kuka robot and the introduction of new plasma brazing technology for joining car body panels.

The Diversified Products Business Unit also launched a range of new products. These include the ProfiKit Oxyfuel Kit and Spectro Lab Gas Supply Line. The Medical Systems Unit reported all time record profits.

Although sales did not reach the previous year's level in some European countries, the Business Units were generally able to increase market share even in sectors which showed little or no growth. The German operations recorded significant profit improvement.

In North America, the severe decline in the machine tool business led to sales levels below those seen last year. However, through a strong market focus, sales fell considerably less than the overall market and profits were protected. In South America, the investment made in expanding the sales organizations in Argentina, Ecuador and Peru in 1998 and in Chile and Brazil in 1999 enabled the Cutting and Welding Group to increase sales in very mixed economic conditions.

In Asia, there were positive business developments in China, Singapore and Korea and sales were ahead of those achieved in 1998.

Transfer of the Cutting & Welding group

Strategic development opportunities for the Cutting & Welding business outside Messer Group and the foreseen upside potential of the business led to its divestiture to Messer Industrie GmbH, the family-owned shareholder in Messer Group. The change in ownership is seen by the Boards of both Messer Group and Messer Industrie as offering the best possible future for the Cutting & Welding group. In 1998 and 1999, the Cutting & Welding group was restructured and was able to achieve the necessary turnaround, creating significant value in the company. The transfer of the business to its new owners is expected to progress smoothly and without significant disruption to any of the companies involved.

Flying high

Our world is getting smaller. More and more people are travelling more often and further. That is why a safe and reliable means of transport has absolute priority. This applies in particular to flying. For this reason, aircraft manufacturers always use state-of-the-art technology for cutting and welding of parts to ensure that maximum safety standards are achieved.

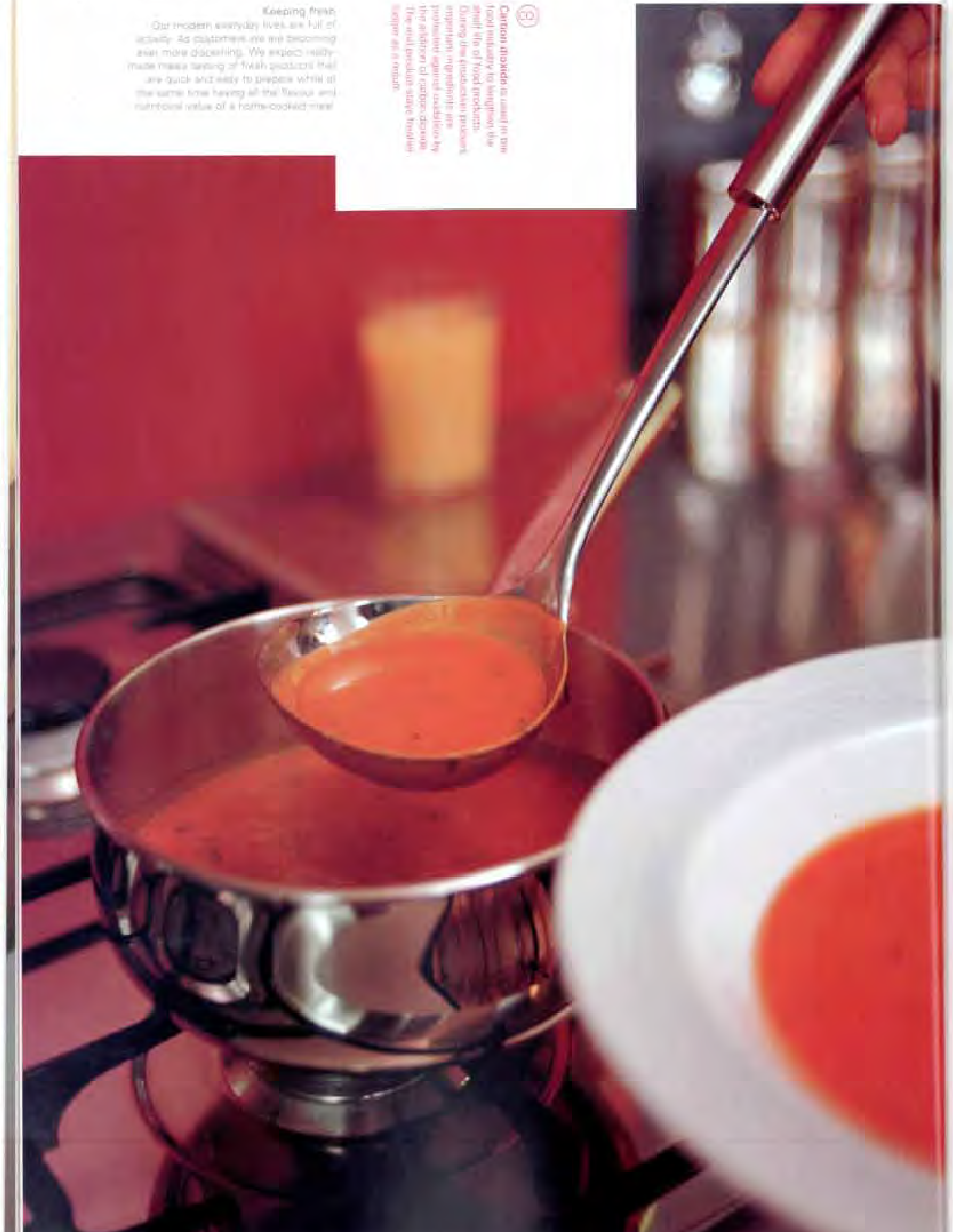
Argon is used for precision welding as main component in mixed gas mixtures and helps to prevent oxidation of the weld pool by the oxygen in the air.

Keeping fresh

Our modern everyday lives are full of activity. As customers we are becoming ever more discerning. We expect ready-made meals tasting of fresh products that are quick and easy to prepare while at the same time having all the flavour and nutritional value of a home-cooked meal.

CO_2

Carbon dioxide is used in the food industry to lengthen the shelf life of food products. During the production process important ingredients are protected against oxidation by the addition of carbon dioxide. The end product stays fresher longer as a result.



Messer's research and development program is one of the engines driving the Group's growth. Every year, dozens of new applications are developed for use across a wide range of industries. 1999 was no exception and customers all over the world are now sharing the benefits.

The research and development program of Messer Group is critical to the Group's competitive position in the industrial gases market and its long-term financial performance.

This is because in Messer, research and development is highly market and customer-oriented. Part of the program is directed at more fundamental research, but most of the effort and expenditure is based on working closely with customers to find new solutions and develop processes for gas applications.

The continuous effort to find better solutions and to work closely with customers, technical partners and research institutes is a defining characteristic of Messer Group. By making both incremental and step change improvements to its product and service portfolio, Messer's relationships with its customers are strengthened and new market opportunities are created.

In 1999, the consolidated companies of Messer Group invested DM 49 million in research and development, DM 6 million less than in 1998. During the year, applications for a further 105 patents and 125 registered inventions were filed, reflecting the success of the Group's research and development program and the skills and vast technical know how of its employees.

Broader application of Messer technologies

Across a wide range of industries and applications, Messer's research and development programme provided a broadening portfolio of solutions and applications in 1999.

In the food industry, Messer's use of ozone to bleach sugar has been widely acclaimed. Sugar refineries in South Africa, Indonesia and the UK have already shown interest in the system, for which there is a worldwide market and even greater potential if current trials with sugar beet are successful.

With the Messer Innovation Award, the Company promotes young scientists, researchers and practicians with a total prize money of US $ 70,000. The Award will be presented for the second time in the year 2000.

Messer has also developed a high speed pelletizer system for the food industry. This can be used for loose, rolled, frozen and individually portioned products. The new Cryogen Rapid Pelletizer can produce pellets as small as 5mm in diameter at the rate of more than one metric tonne per hour.

The refrigeration of goods in transit is an increasingly complex problem, as new regulations in Europe and other markets require temperatures to be more tightly controlled and fluctuations minimized. To address these needs, whilst maximizing operational flexibility and safety, Messer has developed the Siber (carbon dioxide-based) and Cryo-Akku (nitrogen-based) cooling systems. Both provide stable, temperature controlled transit times of up to 48 hours, or even longer, and are an economic alternative to the traditional use of dry ice.

Messer France has also developed and applied for a patent for a new concept which allows increased flexibility in the choice of parameters used for CO_2 storage tanks. The innovative Thermofrigo Pump used in the system enables the contents of a tank to be both cooled and heated, allowing the removal of tank contents to be maximized, irrespective of the outside temperature.

New industrial applications include the development of a process for the carbonizing of hardened steel with hydrogen and propane and the direct gassing and regulation of on-site nitrogen and propane in furnace systems for the annealing and tempering of steel. Messer's patented 'Blackrapid' process continues to be successfully deployed and has been introduced at numerous customer sites. It allows the blackening of metal surfaces by defined oxidation in both batch and continuous process furnaces at annealing temperatures.

Messer's research unit at Krefeld has developed a system for the economic crystallisation of fluid and pasty masses based on high pressure liquid CO_2. There are many potential applications in the food, pharmaceutical and paint industries and the market potential of this technology appears to be very large.

2nd International Messer Innovation Award

In 2000, Messer Group will be launching the 2nd International Messer Innovation Award. With a total value of US$ 70,000, the Award is designed to promote the innovative development of new or optimized processes and the production of new kinds of materials which are broadly connected with the use of industrial gases.

Messer's employees are its most valuable resource. A comprehensive development and training program operates throughout the Group to make them even better prepared for thechallenges of the future.

As a global organization, Messer Group is strongly focused on the personal skills of its employees, wherever they are located. Communications throughout the Group are also extremely important, as the ability to develop technologies, applications and customer relationships cannot be restricted by geographical constraints if Messer is to be globally competitive.

Messer fosters the positive flow of ideas and relationships across its worldwide operations by the use of modern technology, including the Group's intranet, as well as through running training courses involving participants from different markets and Messer companies. This encourages the spread of best practices and provides a stronger and more productive environment for learning and training.

In conjunction with an international management center, Messer has developed a new program for trainee executives. This prepares young employees at an early stage in their careers for the demands of the global market. Trainee selection is based on an analysis of their potential which, together with placement planning, supports selective and long-term personnel development. Other training courses are specifically developed for different groups of employees and include new forms of learning which are integrated into day to day business. Sales employees in Germany are, for example, given support through training and coaching in their working environment.

Training courses were also tailored for individual country companies in 1999 and included computer skills, language courses, technical training and customer courses.

The Messer Academy for management training courses continued in 1999. Since its foundation in 1996, over 200 managers from 34 countries have participated in the 15 courses run by the Academy.

High Priority for Health and Safety

Messer places maximum priority on the safety of its employees and everyone handling the Group's products. This applies to all Messer's companies around the world, from its research and development facilities to on-site plants.

1999 once again demonstrated the success of the Group's health and safety training program. Although the figure of 2.4 accidents per million hours worked was slightly up on the previous year (2.2), it is still one of the industry's best records for safety. 60 of the Group's companies, including the Advanced Gas Systems, were accident free in 1999. Accident frequency was highest in North America and in the Cutting & Welding group.

A comprehensive health and safety training program is implemented in every Messer company, for all employees, customers and drivers of sub-contractor haulage companies. The programs ensure that safety is consistently improved and the same high standard is achieved throughout the Group. For this reason, the safety training programs operated by Messer are continuously reviewed and updated to reflect the Group's business profile and the environments in which it operates.

The Management as a link between regions and business units of the Messer Group co-ordinates the local activities, maximizes potential and exploits synergies to develop the Group.

1
Jim Doerr
U.S. citizen
Age 42
Studied economics and business science and holds a degree in applied science. 15 years experience in the industrial gas industry. 1988: joined the Messer Group, occupied various senior positions in regional management, latterly as Vice-President/General Manager Bulk Division, responsible for our industrial gases business in North America since 1996 and additionally for Global Operations from 1999.

2
Stefan Schaefer
German citizen
Age 57
Business studies graduate, over 30 years' experience in industrial gas companies in Europe and the U.S. in the areas of Operations and as General Manager, from 1994 Executive Director of Messer Griesheim GmbH, responsible for the German industrial gases business; from 1999 also responsible for the UK.

3
Jürgen Schotter
German citizen
Age 51
An economics graduate with a doctorate in political science, since 1979 occupied senior positions in the glass, electronics and metal industries. 1997: joined the Messer Group as Executive Director responsible for finance, accounting and central services.

4
Dr. Klaus Jürgen Schmieder
German citizen
Age 57
Studied legal and economic sciences. Has been with the Hoechst Group since 1977. After holding various senior management positions at Hoechst AG in Germany, became Co-ordination Manager of the Hoechst Group for the Asia-Pacific Region. 1992-1996 Head of Finance at Hoechst Celanese in the USA. 1996 deputy member of the Executive Board of Hoechst AG. 1997 full member of the board, responsible for the Finance Division, Chairman of the Management Board of Messer Griesheim GmbH since 1.1.2000.

5
Godfrey John Allcock
British citizen
Age 48
Studied chemistry, MBA, involved in the industrial gases business since 1982. 1987: joined the Messer Group as Regional Sales Manager, 1989: became Managing Director of our South African company, 1995: took over responsibility for our industrial gases business in the Asia-Pacific region, from 1999 also responsible for Africa and the Middle East.

6
Stefan Messer
German citizen
Age 45
Commercial education, 1979 joined the Messer Group, occupied positions in sales/marketing in Germany and Austria, Executive Director of Messer companies in France and the Netherlands, since 1998 Executive Director of Messer Griesheim GmbH responsible for Western Europe (without UK), Mexico and Global Key Account Management and Global Technology Information.

7
Tom Jeffers
U.S. citizen
Age 46
Engineering studies, MBA, 20 years experience in the management of engineering companies and in the gas industry, responsible since 1996 for the Advanced Gas Systems group, which embraces all on-site activities of the Messer Group.

8
Holger Schwencke
German citizen
Age 57
Studied engineering, from 1970 occupied senior positions in the European gas industry, 1995: joined the Messer Group responsible for the industrial gases business in Western Europe, Africa and the Middle East, from 1999 responsible for the Global Applications Technology group.

9
Wilhelm von Storm
German citizen
Age 58
Commercial education, joined the Messer Group in 1958, several years in management posts in Germany, Mexico and Austria, 1976: took over as Executive Director of MG Austria, responsible since 1995 for the regions of Central and Eastern Europe.

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	Capital participation in per cent	Expenditure on fixed assets in DM thousand	Sales in DM thousand	Employees
Messer Griesheim GmbH, Frankfurt am Main (parent company)		138 590	1 212 580	2 495
Argentina				
Messer S.A. (Argentina), Buenos Aires	100	22 424	4 594	32
Austria				
Messer Austria GmbH, Gumpoldskirchen	100	37 867	74 418	257
Laborex - Sanesco medizinisch-technische Geräte AG, Wien	100	1 000	12 807	55
Belgium				
Messer Belgium N.V., Machelen	99.41	7 155	64 538	156
Bosnia-Herzegovina				
Messer Sarajevo Plin d.o.o., Sarajevo	51	2 383	7 442	133
Brazil				
Messer Griesheim do Brasil Ltda., Sao Paulo	100	70 688	10 536	113
Bulgaria				
Messer Chimco Gas o.o.D., Vratza	51	1 336	9 946	71
Canada				
Messer Griesheim Industries of Canada, Inc., Ottawa / Ontario*	100	6 997	50 899	212
Croatia				
Messer Croatia Plin d.d., Zapresic	99.96	18 232	33 108	263
Czech Republic				
Messer Technogas spol.s r.o., Prag	100	4 894	28 801	113
El Salvador				
Messer de El Salvador S.A. de C.V., San Salvador	50	817	13 196	78
Finland				
Messer Suomi Oy, Helsinki	100	5 203	6 547	23
France				
Messer France S.A., Saint-Denis	100	9 536	114 728	237
Germany				
Buse Gase GmbH & Co., Bad Hönningen	51	301	12 503	0
Home Care GmbH, Oyten	100	150	8 698	27
Mahler AGS GmbH, Stuttgart	100	4 476	24 645	48
Messer AGS GmbH, Hanau	100	13 156	110 552	137
Messer Griesheim Industriegase GmbH, Leipzig	100	8 647	34 800	0
MTS Schmidt GmbH, Grünstadt	75	76	6 518	22
Messer Medical GmbH, Krefeld	100	0	0	0
Messer Nippon Sanso GmbH & Co.KG, Krefeld	51	2 550	39 496	20
Greece				
Special Gases Hellas S.A., Athen	52.61	1 324	6 810	33
Guatemala				
Messer de Centroamerica S.A., Guatemala City	50	5 801	13 974	174
Carbox S.A., Mixco	50	1 904	6 456	23
Hungary				
Messer Hungarogáz Kft, Budapest	100	24 129	55 713	290
India				
Goyal MG Gases Ltd., New Delhi	49	3 944	21 545	279
Indonesia				
P.T. Aneka Gas Industri, Jakarta	90	4 596	17 234	700
Italy				
Geogas S.r.l., Siena	100	543	7 104	9
Messer Italia S.p.A., Collegno	100	4 942	26 577	57
Mexico				
Messer Griesheim de Mexico S.A., de C.V. Ocoyoacac/Edo. de Mexico	100	44 135	20 895	147
Netherlands				
Messer Nederland B.V., Moerdijk	100	13 376	22 468	44
People's Republic of China				
Hunan Xianggang Messer Gas Products Co. Ltd.,	55	16 566	18 278	227
Peru				
Messer Gases S.A. (Peru), Lima	91.9	3 084	7 326	99
Messer Gases del Peru S.A.C., Lima	100	31 050	0	0
Poland				
Messer Polska Spólka z o.o., Chorzow	90	38 935	29 837	207
Singapore				
Messer Singapore Pte. Ltd., Jurong	100	85 543	13 016	85
Slovakia				
Messer Slovnaft spol.s r.o., Bratislava	51	496	8 552	37
Messer Tatragas spol.s r.o., Bratislava	100	6 414	26 354	198
Slovenia				
Messer Slovenija d.o.o., Ruse	91.24	3 078	20 721	109
South Africa				
Fedgas (Pty) Ltd., Alrode/Transvaal	100	3 140	54 579	260
Weldcut Equipment (Pty) Ltd., Johannesburg	100	665	8 915	62
Spain				
Messer Carburos S.A., Tarragona	89.97	5 221	29 500	29
Switzerland				
Messer Schweiz Verwaltungs AG, Dällikon	100	68	0	0
Messer Schweißtechnik AG, Dällikon	100	46	14 856	28
Sauerstoffwerk Lenzburg AG, Lenzburg	50.5	2 066	36 761	88
Taiwan				
Messer Taiwan Co., Ltd., Kaohsiung	100	1 986	5 753	12
Trinidad and Tobago				
Messer Trinidad and Tobago Limited, Port of Spain	100	46 143	4 675	24
United Kingdom				
Messer U.K. Ltd., Reigate	100	20 200	190 807	442
Air Gas Production Ltd., Reigate	100	51	11 395	8
U.S.				
Messer Group Inc., Wilmington/DE	100			
Messer Griesheim Industries Inc., Malvern/PA*	100	171 522	539 263	1011
GVP Inc., Wilmington / DE*	100			
Messer GT & S LP, Malvern/PA*	99			
Messer Cylinder Gas Inc., Wilmington / DE*	100			
Messer GT & S, Wilmington / DE*	100			
Messer AGS Inc., Malvern/PA*	100	0	124 978	26
MG Generon Inc., Houston/Texas*	100	664	12 807	34
Venezuela				
Messer Gases S.A., Caracas	100	23 892	7 732	64
Yugoslavia				
Tehnogas AD, Beigrad	60	2 553	41 635	710
Messer activities in the People's Republic of China (non-consolidated)				
+ = Shares held by the Hoechst China Investment Corporation				
Chengdu Chenggang Messer Gas Products Co. Ltd., Chengdu +	60	16 668	10 127	168
MG Foshan Gas Co. Ltd., Foshan City +	49	836	8 112	165
Shanghai Sangang Messer Gas Products Co. Ltd., Shanghai + Xiangtan, Hunan Province	48	6 784	30 040	297
SMC Asia Gas Systems Co. Ltd., Chengdu	33.33	0	2 805	31
Sichuan Messer Gas Products Co.Ltd., Jiangyou	100	18 549	3 684	62
Messer Wisdom Gas Co.Ltd., Shanghai +	92.5	478	5 021	82
Tianjin Messer Gas Systems Co.Ltd., Tianjin +	80	65	5 308	50
Wujiang Messer Gas Products Co.Ltd., Wujiang +	75	2 087	539	48
Yunnan Zhanhua Messer Gas Products Co.Ltd., Huashan Town Zhanyi County, Qujing City Yunnan	60	2 383	387	39
Messer North China Industrial Gas Co.Ltd., Beijing	100	1 905	595	30

* = Companies pre-consolidated in the Messer Group USA

Consolidated Financial Statements of Messer Griesheim GmbH for 1999

Report of the Board of Management

Messer Griesheim GmbH, Frankfurt Airport Center 1, Frankfurt am Main, Germany is an affiliated company of Hoechst AG, Frankfurt am Main, Germany, and is included in the latter's Group financial statements as well as in the Group financial statements of Aventis S. A., Strasbourg, France, which is the parent company of Hoechst AG.

In view of the requirements of the international capital markets, and despite the exemption available under Article 291 of the German Commercial Code, Messer Griesheim GmbH prepares consolidated Group financial statements in accordance with International Accounting Standards (IAS).

The Board of Management of Messer Griesheim GmbH is responsible for the preparation, the completeness, and the integrity of the Group financial statements as well as for the information contained in the management report.

The companies consolidated in the Group financial statements are required to maintain orderly accounting records and to establish effective control systems. These control systems are intended to enable the Board of Management to recognize in time any possible impact of negative factors on the company's assets and its development. This ensures that all business developments are reflected correctly and that a reliable basis for the Group financial statements is created.

The Board of Management operates the company in the interests of its stockholders and in awareness of its responsibility towards employees and the public. Our declared goal is to employ the resources entrusted to us in ways which increase Messer's value.

Pursuant to a resolution passed by the 1999 General Stockholders' Meeting, the Supervisory Board has engaged PwC Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, as independent auditors to audit the Group financial statements. A report on the audit has been prepared by the auditors. The Audit Committee of the Supervisory Board will discuss the Group financial statements including the management report with the independent auditor. Thereafter, the Supervisory Board will review the financial statements.

Frankfurt am Main,
January 28, 2000

The Board of Management

Schmieder   Messer

Schaefer   Schöttler

Report of Independent Accountants

We have audited the accompanying Group financial statements of Messer Griesheim GmbH as of December 31, 1999, consisting of the balance sheet, the income statement, the statement of changes in equity and cash flows as well as the notes to the financial statements and the management report for the financial year 1999. The preparation and content of the Group financial statements and management report are the responsibility of the company's Board of Management. Our responsibility is to express an opinion based on our audit, as to whether the accounting is in accordance with International Accounting Standards.

We have conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating overall financial statement and management report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations. In our opinion, the Group financial statements for the financial year, present fairly, in all material respects, the financial position of Messer Group as of December 31, 1999, and the results of its operations and its cash flows for the year then ended, in accordance with the Standards of the International Accounting Standards Committee (IASC).

The management report provides a suitable understanding of the Group's position and presents truely and fairly the risks of future development.

Frankfurt am Main,
January 28, 2000

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Lust
Wirtschaftsprüfer

ppa. Dr. Fliess
Wirtschaftsprüfer

Consolidated Income Statement

	Note	1999 DM thousand	1998 DM thousand
Net sales	6	3 436 084	3 371 540
Cost of sales		– 1 740 604	– 1 680 084
Gross profit		1 695 480	1 691 456
Distribution and selling costs		– 1 109 403	– 1 058 631
Research and development costs		– 49 336	– 55 170
General and administrative costs		– 302 283	– 230 130
Other operating income	7	+ 75 554	+ 99 828
Other operating expense	8	– 57 213	– 47 004
Operating profit	6	252 799	400 349
Investment income (expense), net	9	– 1 811	+ 787
Result from associated companies	10	– 24 234	– 4 931
Interest expense, net	11	– 110 831	– 84 515
Other financial expenses, net	12	– 5 398	– 1 906
Financial result		– 142 274	– 90 565
Loss on transfer of discontinuing operation	13	– 28 051	–
Profit before taxes on income		82 474	309 784
Taxes on income	14	– 81 939	– 104 610
Income before minority interests		535	205 174
Minority interests	24	– 14 795	– 16 170
Net income/loss		– 14 260	189 004

Consolidated Balance Sheet

Assets	Note	31.12.1999 DM thousand	31.12.1998 DM thousand
Intangible assets	15	287 456	273 165
Property, plant and equipment	16	3 834 124	2 938 091
Investments	17	408 635	510 484
Fixed assets and investments	18	4 530 215	3 721 740
Inventories	19	206 024	325 915
Trade accounts receivable and receivables related to long-term construction contracts	20	475 793	623 894
Other receivables and other assets	21	585 139	231 297
Marketable securities		2 409	8 870
Cash and cash equivalents	22	93 329	130 530
Current assets		1 362 694	1 320 506
Total assets		5 892 909	5 042 246

Stockholders' Equity and Liabilities	Note	31.12.1999 DM thousand	31.12.1998 DM thousand
Subscribed capital of Messer Griesheim GmbH		540 000	540 000
Additional paid-in capital		232 200	232 200
Retained earnings		684 484	486 366
Net income/loss		– 14 260	189 004
Stockholders' equity	23	1 442 424	1 447 570
Minority interests	24	180 614	147 263
Provisions for pensions and similar obligations	25	275 146	299 940
Other provisions	26	443 176	369 867
Corporate debt	27	1 913 868	1 611 435
Non-current liabilities		2 632 190	2 281 242
Other provisions	26	124 541	109 531
Corporate debt	27	831 182	488 085
Trade accounts payable	28	266 396	246 328
Miscellaneous liabilities	29	415 562	322 227
Current liabilities		1 637 681	1 166 171
Total stockholders' equity and liabilities		5 892 909	5 042 246

Consolidated Cash Flow Statement

	Note		1999 DM thousand		1998 DM thousand
Profit before taxes on income		+	82 474	+	309 784
Income taxes paid		–	84 275	–	59 067
Loss on transfer of discontinuing operation	13	+	28 051		–
Depreciation of fixed assets and investments	18	+	411 088	+	309 129
Appreciation of fixed assets and investments	18	–	1 385	–	6 694
Gain on disposal of fixed assets and investments		–	210	–	24 103
Changes in equity valuation	17	+	10 101	+	6 145
Interest expense, net	11	+	110 831	+	84 515
Other financial expense, net	12	+	5 398	+	1 906
Changes in inventories		+	5 807	+	10 042
Changes in receivables and other assets		–	173 784	–	121 840
Proceeds from sale of accounts receivable			–	+	100 000
Changes in provisions		+	46 877	+	17 923
Changes in other liabilities		+	218 362	–	417
Other		+	2 216	–	13 365
Cash flow from operating activities		+	661 551	+	613 958
Capital expenditure on property, plant and equipment and investments in intangible assets	15, 16	–	905 000	–	924 630
Financial investments	17	–	183 096	–	377 787
Disposal of subsidary, net of cash disclosed		–	20 633		–
Proceeds from the sale of property, plant and equipment and intangible assets		+	90 199	+	135 624
Proceeds from the sale of investments, other financial result		+	57 198	+	25 484
Changes in marketable securities		+	5 192	–	696
Interest received	11	+	27 340	+	28 187
Cash flow used for investing activities		–	928 800	–	1 113 818
Capital increases	23		–	+	58 200
Additions to non-current corporate debt		+	132 718	+	582 701
Additions to current corporate debt		+	314 677	+	66 695
Dividends paid		–	102 901	–	105 368
Interest paid	11	–	138 171	–	112 702
Cash flow from financing activities		+	206 323	+	489 526
Cash flow from operating, investing and financing activities		–	60 926	–	10 334
Effect of exchange rate changes on cash		+	3 070	–	9 000
Effect of consolidation changes on cash		+	20 655	+	108 268
Changes in cash and cash equivalents		–	37 201	+	88 934
Cash and cash equivalents					
at beginning of year		+	130 530	+	41 596
at end of year	22	+	93 329	+	130 530

Movements in stockholders' equity of the Messer Group

For the Group movements in stockholders' equity and further explanations please refer to section 23 of the notes of Messer Group.

General remarks

The companies of Messer Group produce and distribute industrial gases, related application processes and gas production systems.

The consolidated statements of income, the consolidated balance sheet and the consolidated cash flow statements precede the notes to the Group accounts. Reporting currency is DM.

Stockholders are Hoechst AG, Frankfurt am Main (66 2/3%) and Messer Industrie GmbH, Königstein/Taunus (33 1/3%). Hoechst AG is the parent company.

The Group financial statements of Messer Griesheim GmbH are included in the consolidated financial statements prepared by Hoechst AG as well as in the consolidated financial statements of Aventis S. A., Strasbourg, France, which is the parent company of Hoechst AG. The Group financial statements of Hoechst AG are published and filed with the Commercial Register in Frankfurt am Main; they are listed in the German Federal Gazette. The Group financial statements of Aventis S. A. are published and filed with the Commercial Register in Strasbourg, France; they are published in the Bulletin des Annonces Légales et Officielles (BALO).

(1)

Accounting principles

The Group financial statements have been prepared in accordance with the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC). To adequately present increased plant construction activities, the percentage of completion method according to IAS 11 is applied for long-term construction contracts. Furthermore borrowing costs directly attributable to long-term constructions are capitalized according to IAS 23.

Classification is based on the principles of clarity, understandability and materiality. The following accounting changes have been made including the adjustments of prior year figures: According to IAS 1 (revised 1997) current and non-current assets and current and non-current liabilities are shown as separate classifications on the balance sheet as well as in the notes. Prepaid expenses and deferred charges are reclassified from separate items into other assets and miscellaneous liabilities, respectively. In compliance with IAS 1 (revised 1997) minority interests are presented separately after the parent shareholders' equity but before total liabilities.

The preparation of the Group financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2)

Consolidation principles
Composition of the Messer Group

The consolidated financial statements include the accounts of Messer Griesheim GmbH and 59 subsidiaries which are either controlled by Messer Griesheim GmbH or in which Messer Griesheim GmbH either directly or indirectly holds the majority of voting rights. In addition, seven associated companies were accounted for under the equity method. Information regarding the investment holdings of Messer Group and of Messer Griesheim GmbH is provided in a joint listing and filed with the Commercial Register in Frankfurt am Main, Germany. The subsidiaries included in the consolidated financial statements are indicated in this listing. Subsidiaries which originated by separation are included in the financial statements. The first time consolidation of 16 companies had the following impact on the financial and earnings position of Messer Group:

	DM million
Fixed assets and investments	151
Current assets	150
Assets	301
Stockholders' equity	– 7
Liabilities	308
Stockholders' equity and liabilities	301
Net sales	164
Operating profit	– 35

Profit includes the amortization of goodwill. Subsidiaries which are immaterial for the assessment of the net worth and the financial and earnings position of the Group have not been consolidated.

Consolidation methods

The Group financial statements are based on the audited individual financial statements of Messer Griesheim GmbH and its consolidated subsidiaries, which have been audited by independent auditors.

Investments in subsidiaries and the net assets of such subsidiaries are eliminated in consolidation. In general, the difference between the acquisition cost of a subsidiary and the book value at the time of the acquisition of the portion of the net equity acquired is allocated to the subsidiary's assets and liabilities up to their respective fair values, in proportion to the shares acquired.

Any remaining excess is capitalized as goodwill in the reporting currency and amortized over the useful life of the goodwill. Equity method investments are accounted for in a similar manner.

Intragroup receivables and corresponding liabilities are offset and differences are recognized in the income statement. Intragroup profits resulting from transactions which have not been realized via sales to third parties are eliminated in the consolidated financial statements.

Net sales and other income from intragroup transactions are set off against the corresponding expenses.

Write-downs of investments in consolidated companies are eliminated to the extent that the respective risks have already been accounted for by consolidating the individual financial statements.

(3)

Currency translation principles and effects

Pursuant to IAS 21, the financial statements of Group companies outside Germany are translated into DM in accordance with the 'functional currency' concept. The functional currency is usually the local currency.

Selected currencies	Exchange rate applicable on the balance sheet date		Average annual exchange rate	
	31.12.1999 DM	31.12.1998 DM	1999 DM	1998 DM
1 US-Dollar	1,95	1,67	1,85	1,76
1 Pfund Sterling	3,15	2,80	2,99	2,91
1 South African Rand	0,32	0,28	0,30	0,32
100 Indian Rupies	4,48	3,94	4,29	4,28
100 Hungarian Forint	0,77	0,78	0,77	0,82
1 Brasilian Real	1,08	1,38	1,00	1,52

Assets and liabilities are translated into DM at the closing rate on the balance sheet date. The items on the income statement are translated using average annual rates. Foreign exchange differences resulting from the translation of net assets at exchange rates differing from those applicable at the end of the prior year are recorded as a separate component of stockholders' equity. Differences attributable to Messer's interest are included in retained earnings. Those attributable to third parties are included in minority interests. Current receivables and liabilities reported in the financial statements of consolidated companies are stated in the Group financial statements at the buying rate and selling rate, respectively, on the balance sheet date. The functional currency of Tehnogas AD, Belgrad, is the DM. In line with IAS 21 the annual accounts of Tehnogas were translated into the functional currency. During 1999 the DM weakened especially against the US$ and the Pound Sterling. The translation effects of the movement in these exchange rates on the balance sheet and income statement are as follows:

	DM million
Fixed assets and investments	248
Current assets	67
Assets	315
Stockholders' equity	134
Liabilities	181
Stockholders' equity and liabilities	315
Net sales	9
Operating profit	13

Investments are carried at acquisition cost or their lower fair value on the balance sheet date if this value is expected to be other than temporary.

The participation interests in the following associated companies are accounted for under the equity method:

Name and headquarters of the company	Capital participation (%)
Messer de Honduras S.A. de C.V., Tegucigalpa/Honduras	50,0
Singapore Syngas Pte. Ltd., Singapore/Singapore	50,0
Messer Egypt S.A.E., Kairo/Egypt	49,5
MG Odra Gas spol. sr.o., Ostrava/Czech Republic	49,0
Secomex Manufacturing (M) Snd.Bhd., Kuala Lumpur/Malaysia	49,0
Neal and Massy Gas Products Limited, Port of Spain/Trinidad and Tobago	42,7
Wedeco Umwelttechnologie Wasser – Boden – Luft GmbH, Düsseldorf/Germany	31,8

Messer EWM GmbH, Mündersbach, Germany, which was previously accounted for under the equity method, has been disposed of because of the separation of the Cutting & Welding Group.

Low-interest or non-interest bearing long-term notes receivable are stated at their net present value.

Inventories are valued at the lower of acquisition cost, manufacturing cost or net realizable value on the balance sheet date, primarily by using the average cost method. In addition to directly allocable costs, manufacturing costs include an allocation of indirect material and factory overheads as well as straight-line depreciation based on the assumption of normal capacity utilization. Interest on borrowings is not capitalized. Revenue from long-term construction contracts is realized when a reliable estimate is possible. The percentage of completion method is used to determine the appropriate result.

The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Losses are recognised as soon as they are foreseen. The full amount of the anticipated loss, including any loss related to future work on the contract, is recognised in the period in which the loss is identified.

Trade accounts receivable and other receivables are stated at nominal value. Appropriate write-downs are made to account for risks. Bankers acceptances are discounted. Marketable securities classified as current assets are carried at the lower of cost or market value on the balance sheet date. The carrying amounts approximate fair values. The original values of assets are reinstated when the reasons for write-downs no longer exist.

Trade accounts payable and other liabilities are carried at the expected settlement amount.

(4)

Accounting and valuation methods

Intangible assets are capitalized at acquisition cost and amortized on a straight-line basis over their expected useful lives or legal lives, whichever is shorter. Goodwill is amortized over a period of 5 to 20 years. An amortization period of more than 5 years is applied in case of stable markets and a strong market position.

Property, plant and equipment is capitalized at cost – net of government grants – and depreciated over the expected useful lives. The costs of self-constructed assets are based on directly allocable itemized costs and appropriate overhead costs including straight-line depreciation. Borrowing costs directly attributable to the construction are capitalized until the asset is ready for use. The capitalization rate used is a uniform rate of 5 % p. a., unless the capitalization has already been conducted in the individual annual accounts with local rates of capitalization. Repair costs are charged to expense when incurred. In accordance with IAS 9, development costs are charged as an expense in the period in which they are incurred, due to the uncertainty of the future economic benefit.

Scheduled depreciation of property, plant and equipment is based on the following useful lives:

Buildings and other structures	10 to 50 years
Distribution equipment and pipelines	20 years
Air separation units	15 years
Machines	10 years
Stationary tanks and tank supports	15 years
Steel gas cylinders	20 years

Effective January 1, 1994, all newly acquired fixed assets are depreciated on a straight-line basis. Extraordinary write-downs of intangible assets and property, plant and equipment are recorded if the value of the asset is impaired.

Fixed assets which are under the economic ownership of Messer Griesheim GmbH because of leasing agreements are capitalized in accordance with IAS 17. In each case a liability is set up to the same amount.

Provisions for pensions are calculated using the projected unit credit method in accordance with IAS 19. The probable amounts of all contingencies and uncertain liabilities are included in other provisions in accordance with IAS 10. Provisions that do not contain an interest component are not discounted.

Taxes are accounted for in accordance with IAS 12. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, certain consolidation adjustments, net operating loss carryforwards and tax credits. Deferred tax assets are included in other assets and deferred tax liabilities in other provisions.

(5)

Segment information principles

The segment information presented in the Group financial statements complies with IAS 14 (revised 1997). Prior year figures have been adjusted accordingly.

Comments on the segments

The primary segment reporting format complies with the management structure and the internal reporting system of Messer Group. Based on the characteristics of the industrial gas market, the business is separated into regions. The cutting and welding section, as well as the advanced gas systems section are determined by their worldwide markets. The cutting and welding section was disposed of at year end 1999.

Comments on the segment data

The primary segment reporting format represents the allocation of net sales according to their point of origin.

Inter-segment sales reflect sales to Group companies not belonging to the same segment. Transfer prices for inter-segment sales are set on an arm's length basis.

Significant non-cash expenses and revenues comprise the appreciation of intangible and tangible fixed assets, profit and loss transfers of those companies which are accounted for under the equity method and deferred taxes.

Operating assets and operating liabilities represent assets employed in operations and liabilities owed to third parties excluding corporate debt and taxes.

Capital expenditures are composed of intangible assets and property, plant and equipment.

The reconciliation of segment to Group figures shows:

the elimination of inter-segment sales, profits, receivables and payables as well as income and expenses;

assets and liabilities not allocable to the individual segments;

miscellaneous costs.

The reconciliation of the operating assets and liabilities to Group figures includes the disposal of the Cutting & Welding Group.

The return on sales denotes the ratio of operating profit to net sales. The return on assets denotes the ratio of operating profit to operating assets.

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Segment information

Business areas	Industrial gases									
	Western Europe	Central/ Eastern Europe	North America	Latin America	Asia/Africa	Total	Cutting and Welding	Advanced Gas Systems	Reconciliation	Group
Total sales										
1999	1 748 027	447 986	590 235	89 382	139 318	3 014 948	593 894	272 920	–	3 881 762
1998	1 791 924	414 118	623 604	52 868	105 160	2 987 674	620 047	143 710	–	3 751 431
Inter-segment sales										
1999	107 647	31 646	–	692	502	140 487	29 084	894	275 213	445 678
1998	76 523	38 993	–	308	221	116 045	32 645	3 344	227 857	379 891
Net sales										
1999	1 640 380	416 340	590 235	88 690	138 816	2 874 461	564 810	272 026	– 275 213	3 436 084
1998	1 715 401	375 125	623 604	52 560	104 939	2 871 629	587 402	140 366	– 227 857	3 371 540
Operating profit										
1999	286 875	46 491	48 124	– 78 949	– 24 548	277 993	16 542	2 802	– 44 538	252 799
1998	330 179	35 702	70 203	1 588	– 13 056	424 616	10 526	2 995	– 37 788	400 349
Depreciation of intangible and tangible fixed assets										
1999	158 054	52 551	101 556	44 845	30 320	387 326	14 260	39	810	402 435
1998	132 308	46 741	84 330	8 829	17 839	290 047	10 687	– 251	3 985	304 468
Significant non-cash expenses and revenues										
1999	– 25 534	– 3 286	–	2 741	272	– 25 807	– 70	– 3 645	– 44 299	– 73 821
1998	– 33 855	4 278	– 22 912	1 734	– 2 867	– 53 622	– 2.681	– 3 124	– 10 448	– 69 875
Operating assets										
1999	2 153 737	656 910	1 382 164	737 476	370 033	5 300 320	356 498	139 733	– 593 065	5 203 486
1998	1 762 201	540 341	1 146 655	303 874	190 060	3 943 131	410 674	75 968	– 143 775	4 285 998
Operating liabilities										
1999	774 004	90 537	101 937	125 864	79 412	1 171 754	68 495	118 096	– 647 711	710 634
1998	606 895	87 714	110 307	21 291	27 178	853 385	161 108	53 851	– 264 907	803 437
Capital expenditures										
1999	205 854	155 555	179 183	249 942	116 435	906 969	14 780	17 632	– 34 381	905 000
1998	310 365	110 041	341 666	125 821	39 762	927 655	21 329	20 648	– 45 002	924 630
Research and development costs										
1999	37 766	248	610	–	–	38 624	9 817	1 255	– 360	49 336
1998	39 475	62	987	–	–	40 524	13 927	1 081	– 362	55 170
Employees (on December 31)										
1999	3 480	2 681	1 283	754	1 625	9 823	1 441	185	– 1 441	10 008
1998	3 443	2 876	1 485	463	1 371	9 638	1 453	198	–	11 289
Return on sales (%)										
1999	17	11	8	– 89	– 18	10	3	1	–	7
1998	19	10	11	3	– 12	15	2	2	–	12
Return on assets (%)										
1999	13	7	3	– 11	– 7	5	5	2	–	5
1998	19	7	6	1	– 7	11	3	4	–	9

In addition to the business segment data reported in line with the Group's management structure, geographical segment data are presented in the following table:

	Europe		Germany		Americas		Asia, Africa		Total	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Net sales	2 310 303	2 308 906	1 014 041	1 195 660	836 629	756 567	289 152	306 067	3 436 084	3 371 540
Operating assets	3 306 878	2 695 608	1 728 003	1 425 082	2 119 640	1 544 105	370 033	190 060	5 796 551	4 429 773
Capital expenditures	393 641	440 403	174 550	251 197	429 305	489 467	116 435	39 762	939 381	969 632

Net sales are based on customer domicile.

Consolidated Financial Statements

7

Other operating income

	1999	1998
Gains on currency changes	8 873	6 891
Disposal of property, plant and equipment	7 034	24 103
Reversal of write-downs of receivables	6 626	2 847
Other business activities	4 633	2 495
Appreciation of property, plant and equipment	3 943	6 366
Release of provisions	2 550	13 737
Miscellaneous	41 895	43 389
Total	75 554	99 828

8

Other operating expense

	1999	1998
Amortization of goodwill	20 296	19 073
Losses on currency changes	9 862	1 424
Disposal of fixed assets and investments	5 758	5 423
Write-downs of receivables	3 854	4 902
Miscellaneous	17 443	16 182
Total	57 213	47 004

Amortization of goodwill relates mainly to first consolidation.

9

Investment income (expense), net

	1999	1998
Transfer of profits from unconsolidated subsidiaries	151	74
Income from participating interests	6 021	7 877
Other income from investments	2 624	512
Income	8 796	8 463
Transfer of losses of unconsolidated subsidiaries	–	6
Other expenses related to investments	10 607	7 670
Expenses	10 607	7 676
Investment income (expense), net	– 1 811	787

Affiliates account for DM 2 302 thousand (1998: DM 1 649 thousand) of the income from participating interests. Other expenses related to investments include write-offs on investments of about DM 9 122 thousand (1998:DM 4 661 thousand). Losses on disposal of investments amounted to DM 1 471 thousand (1998: '0').

10

Result from associated companies

	1999	1998
Proportionate Profits	6 346	2 047
Amortization of Goodwill	6 265	5 306
Proportionate Losses	24 315	1 672
Result from associated companies	– 24 234	– 4 931

In connection with the air separation plant in Malaysia a provision for contingent losses was set up which led to a substancial increase in proportionate losses.

11

Interest expense, net

	1999	1998
Income from other securities and long-term loans	1 172	2 590
Other interest and similar income	26 168	25 597
Interest and similar expenses	166 063	120 283
Capitalized borrowing costs related to the construction of fixed assets	– 27 892	– 7 581
Interest expense, net	– 110 831	– 84 515

Affiliates account for DM 1 068 thousand (1998: DM 1 293 thousand) of other interest and similar income and for DM 1 398 thousand (1998: DM 526 thousand) of interest and similar expenses.

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Other financial expense, net

This item consists of income amounting to DM 8 430 thousand (1998: DM 424 thousand) and expenses amounting to DM 13 828 thousand (1998: DM 2 330 thousand).

(13)

Loss on transfer of discontinuing operation

	1999		1998	
	Cutting and Welding	Industrial gases	Cutting and Welding	Industrial gases
Income Statement				
Net sales	564 810	2 871 274	587 402	2 784 138
Operating profit	16 542	236 257	10 526	389 823
Loss on transfer of discontinuing operation	–	– 28 051	–	–
Profit before taxes on income	13 544	68 930	3 958	305 826
Taxes on income	6 239	75 700	9 040	95 570
Cash flow Statement				
Cash flow from operating activities	– 211 315	872 866	– 6 562	620 520
Cash flow used for investing activities	– 21 971	– 906 829	– 19 679	– 1 094 139
Cash flow from financing activities	237 288	– 30 965	28 636	460 890
Balance Sheet				
Assets	–	5 892 909	469 658	4 572 588
Liabilities	–	3 370 502	336 745	2 331 330

The transfer of the discontinuing operation refers to the business activities of the Cutting & Welding Group as a whole, which is shown in the segment reporting as a segment of its own. The transfer was conducted at year end 1999.

The Cutting & Welding Group is a leading global producer of cutting systems, welding systems and related consumable products and services.

The Cutting & Welding Group is divided into three major divisions organized along product lines:

- The Cutting Systems Divisions' products are laser cutting systems, precision, dry and water injection plasma cutting systems, oxy-fuel cutting systems, beveling systems and cutting software.
- The Welding Systems Divisions' products are robot systems, electron beam and 3-D laser systems, strip welding/section cutting systems, resistance welding systems, orbital systems and arc welding systems.
- The Diversified Products Divisions' major businesses are filler material and auxiliary equipment for welding and soldering, oxy-fuel technology, gas supply systems and medical diagnostic instruments.

(14)

Taxes on income

	1999	1998
Income taxes for the year under review	30 219	46 261
of which Germany	847	27 207
of which abroad	29 372	19 054
Income taxes for previous years	– 147	– 3 338
Income taxes	30 072	42 923
Tax risks (provision)	3 397	3 109
Deferred taxes	48 470	58 578
Total	81 939	104 610

The utilization of tax loss carryforwards lowered the tax charge by DM 5 956 thousand (1998: DM 12 048 thousand). The tax loss carryforwards available as of the balance sheet date amount to DM 225 695 thousand (1998: DM 116 395 thousand) and have generally no expiration dates. Deferred tax assets are recognized for tax loss carryforwards only to the extent that realization of the related tax benefit is probable. Tax loss carryforwards resulted in deferred tax income amounting to DM 13 284 thousand (1998: DM 2 623 thousand). The separation of the Cutting & Welding Group led to a decrease in tax expenses amounting to DM 22 665.

Deferred taxes are recognized for timing differences between the profit before taxes on income in the Group financial statements and the taxable profit in the individual consolidated financial statements. They relate mainly to valuation adjustments allowable for tax purposes only, accrual and release of special reserve items subject to future taxation, adaptation of IAS and elimination of intragroup results.

The effective tax expenses are comprised of:

	1999	1998
Profit before taxes on income	82 474	309 784
Non-deductible expenses	171 405	34 743
Trade tax on income in Germany	– 1 236	– 21 994
Profit after German trade tax on income	252 643	322 533
Corporation tax*	101 065	145 307
Tax reduction in connection with dividend payments to German taxpayers	–	– 8 815
Income tax expense/benefit for previous years	– 291	– 10 381
Lower taxes abroad	– 10 835	– 28 294
Utilization of tax loss carryforwards (including deferred taxes on tax loss carryforwards)	– 11 240	– 14 671
Trade tax on income in Germany	1 236	21 994
Other	2 004	– 530
Taxes on income	81 939	104 610

* Computed using the German corporation tax rate of 40 % (1998: 45 %) on retained earnings.

Deferred taxes as of December 31, 1999 are attributable to the following balance sheet items:

	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	12 873	– 15 013
Intangible assets	– 13 969	– 5 343
Property, plant and equipment	3 221	251 592
Investments	–	41 438
Inventories	58	–
Pension provisions	–	– 14 833
Other provisions	6 718	29 517
Other items	4 312	42 521
Total	13 213	329 879

(15)

Intangible assets

	Goodwill	Other	Total
Acquisition cost			
01.01.1999	233 641	124 534	358 175
Additions	26 592	34 393	60 985
Disposals	75	14 695	14 770
Book transfers	–	3 831	3 831
Exchange rate changes	7 254	3 915	11 169
Changes in the composition of Messer Group	– 17 580	10 042	– 7 538
31.12.1999	249 832	162 020	411 852
Amortization			
01.01.1999	45 555	39 455	85 010
Additions	20 740	18 912	39 652
Disposals	–	3 264	3 264
Exchange rate changes	1 275	3 045	4 320
Changes in the composition of Messer Group	– 2 078	756	– 1 322
31.12.1999	65 492	58 904	124 396
Book value as of 31.12.1999	184 340	103 116	287 456
Book value as of 31.12.1999	188 086	85 079	273 165

(16)

Property, plant and equipment

	Land and buildings	Plant and machinery	Other plants, factory and office equipment	Advance payments and construction in progress	Total
Acquisition or production cost					
01.01.1999	720 344	3 565 019	732 635	410 150	5 428 148
Additions	17 801	225 655	132 409	468 150	844 015
Disposals	25 893	89 275	70 124	24 809	210 101
Book transfers	3 698	400 229	12 123	– 419 881	– 3 831
Exchange rate changes	22 131	256 377	13 215	45 075	336 798
Changes in the composition of Messer Group	– 25 591	91 982	7 709	141 731	215 831
31.12.1999	712 490	4 449 987	827 967	620 416	6 610 860
Depreciation					
01.01.1999	285 911	1 816 088	388 058	–	2 490 057
Additions	26 011	263 782	68 622	4 368	362 783
Appreciation	858	–	258	–	1 116
Disposals	17 867	77 833	36 995	–	132 695
Book transfers	–	3 147	– 3 147	–	–
Exchange rate changes	7 186	91 545	6 057	1 081	105 869
Changes in the composition of Messer Group	– 8 671	– 7 268	– 31 189	– 1 034	– 48 162
31.12.1999	291 712	2 069 461	391 148	4 415	2 776 736
Book value as of 31.12.1999	420 778	2 360 526	436 819	616 001	3 834 124
Book value as of 31.12.1999	434 433	1 748 931	344 577	410 150	2 938 091

Certain assets which are utilized under leasing agreements and which have to be capitalized in accordance with IAS 17 are included in property, plant and equipment. Assets under finance leases amount to DM 300 782 thousand (1998: DM 273 368 thousand).

There are no liens (1998: DM 8 052 thousand) on land.

(17)

Investments

	Shares in affiliates	Shares in associated companies	Other participating interests	Loans to affiliates	Other investments	Total
Acquisition cost						
01.01.1999	294 683	39 390	64 419	65 898	67 762	532 152
Additions	54 308	18 606	17 704	641	91 837	183 096
Disposals	1 120	29	2 132	28 958	31 574	63 813
Book transfers	– 7 121	23 131	– 13 974	–	– 2 036	–
Exchange rate changes	3 959	– 97	1 344	–	7 027	12 233
Changes resulting from the 'at equity' method	–	– 10 101	–	–	–	– 10 101
Changes in the composition of Messer Group	– 181 506	– 9 546	– 456	– 36 940	– 3 362	– 231 810
31.12.1999	163 203	61 354	66 905	641	129 654	421 757
Write-downs						
01.01.1999	14 385	4 445	2 358	–	480	21 668
Additions	3 082	–	5 565	–	6	8 653
Appreciation	–	–	–	–	269	269
Disposals	–	–	7	–	144	151
Exchange rate changes	1 772	–	35	–	– 5	1 802
Changes in the composition of Messer Group	– 16 664	–	– 2 000	–	83	– 18 581
31.12.1999	2 575	4 445	5 951	–	151	13 122
Book value as of 31.12.1999	160 628	56 909	60 954	641	129 503	408 635
Book value as of 31.12.1999	280 298	34 945	62 061	65 898	67 282	510 484

Other investments include investments in securities of DM 3 332 thousand (1998: DM 6 108 thousand) and other loans of DM 126 171 thousand (1998: DM 61 174 thousand). Included in other investments are loans amounting to DM 73 358 thousand (1998: DM 6 800 thousand) to associated companies and loans amounting to DM 4 063 thousand (1998: DM 0 thousand) to affiliated companies.

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Summary of movements in fixed assets and investments

	Intangible assets	Property, plant and equipment	Investments	Total
Acquisition or production cost				
01.01.1999	358 175	5 428 148	532 152	**6 318 475**
Additions	60 985	844 015	183 096	**1 088 096**
Disposals	14 770	210 101	63 813	**288 684**
Book transfers	3 831	– 3 831	–	–
Exchange rate changes	11 169	336 798	12 233	**360 200**
Changes resulting from the 'at equity' method	–	–	– 10 101	**– 10 101**
Changes in the composition of Messer Group	– 7 538	215 831	– 231 810	**– 23 517**
31.12.1999	411 852	6 610 860	421 757	**7 444 469**
Depreciation/Write-downs				
01.01.1999	85 010	2 490 057	21 668	**2 596 735**
Additions	39 652	362 783	8 653	**411 088**
Appreciation	–	1 116	269	**1 385**
Disposals	3 264	132 695	151	**136 110**
Exchange rate changes	4 320	105 869	1 802	**111 991**
Changes in the composition of Messer Group	– 1 322	– 48 162	– 18 581	**– 68 065**
31.12.1999	124 396	2 776 736	13 122	**2 914 254**
Book value as of 31.12.1999	287 456	3 834 124	408 635	**4 530 215**
Book value as of 31.12.1999	273 165	2 938 091	510 484	3 721 740

19

Inventories

	31.12.1999	31.12.1998
Raw materials and supplies	**37 762**	83 706
Work in progress	**58 841**	105 808
Finished goods and merchandise	**94 026**	116 021
	190 629	305 535
Advance payments made	**15 395**	20 380
Total	**206 024**	325 915

Work in progress mainly consists of unfinished customer orders.

20

Trade accounts receivable and receivables related to long-term construction contracts

	31.12.1999	31.12.1998
Trade accounts receivable from		
Customers	**422 241**	459 764
Unconsolidated subsidiaries and affiliated companies	**26 878**	55 960
Companies in which a participating interest is held	**9 515**	74 940
Stockholders	**282**	728
Receivables related to long-term construction contracts	**16 877**	32 502
Total	**475 793**	623 894

Due to the application of the percentage of completion method for long-term construction contracts, proceeds of DM 28 679 thousand were recognised in the financial year 1999.

Receivables from customers with a remaining term of more than one year amount to DM 9 444 thousand (1998: DM 21 870 thousand).

Trade accounts receivable have been reduced by factoring without recourse to the amount of DM 100 000 thousand. The interest rate including bank charges is 3.6 % p.a.

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Other receivables and other assets

	31.12.1999	31.12.1998
Other receivables from		
Unconsolidated subsidiaries and affiliated companies	**10 190**	38 007
Companies in which a participating interest is held	**18 294**	3 648
Stockholders	**266 651**	30
Other assets		
Deferred taxes	**13 213**	16 915
Tax receivables	**64 487**	32 214
Prepaid items	**12 122**	10 635
Receivables from insurance companies	**3 106**	1 624
Receivables from suppliers and agents	**5 342**	2 944
Advance payments made	**6 280**	7 238
Loans	**76 180**	47 445
Security deposits	**6 721**	4 240
Miscellaneous	**102 553**	66 357
Total	**585 139**	231 297

The increase of the other receivables from unconsolidated subsidiaries and affiliated companies results from short-term credit arrangements. The other assets mainly include services for projects.

Other assets with a remaining term of more than one year amount to DM 78 thousand (1998: DM 0).

22

Cash and cash equivalents

Cash and cash equivalents are composed of cheques, cash in hand and bank deposits.

23

Movements in stockholders' equity

	01.01.1999	Dividend payments	Transfer to retained earnings	Net loss	Exchange rate changes	Other changes	31.12.1999
Subscribed capital of Messer Griesheim GmbH	540 000						**540 000**
Additional paid-in capital	232 200						**232 200**
Exchange rate adjustments *	– 14 633				122 876		**108 243**
Retained earnings *	500 999		96 004			– 20 762	**576 241**
Net income/loss	189 004	– 93 000	– 96 004	– 14 260			**– 14 260**
Equity of Messer Griesheim GmbH stochholders	1 447 570	– 93 000	–	– 14 260	122 876	– 20 762	**1 442 424**

* In the balance sheet reported as retained earnings

The Group's net income includes Messer Griesheim GmbH's net income of DM 111 336 thousand (1998: DM 93 000 thousand).

In addition to the regular dividend payment of DM DM 15 000 thousand a special dividend payment of DM 266 000 is planned in recognition of the transfer of the Cutting & Welding Group. The stockholders of Messer Griesheim GmbH allowed the company to withdraw DM 169 664 from retained earnings.

The item other changes relates mainly to an additional amount of DM 13 453 thousand, which is due to the first time application of IAS 19 (revised 1998). This amount is not included in current net income.

In 1998, the movements in stockholders' equity were caused by: a transfer of DM 58 200 thousand to additional paid-in capital of Messer Griesheim GmbH; DM 86 622 thousand was transfered from net income to retained earnings; dividend distributions of DM 95 100 thousand; a net income of DM 189 004 thousand; and exchange rate adjustments of DM -94 489. A further DM -4 465 thousand was attributable to other changes.

25 Provisions for pensions and similar obligations

	31.12.1999	31.12.1998
Pension obligations	261 049	266 849
Similar obligations	14 097	33 091
Total	275 146	299 940

26 Minority interests

The following table shows the development of minority interests in 1999:

01.01.1999	147 263
Dividend payments	– 9 901
Profit after taxes	14 795
Exchange rate changes	– 30
Other changes	28 487
31.12.1999	180 614

The item other changes includes DM 51 307 thousand, which is attributable to the addition of three minority stockholders. Another three minorities of DM 22 182 were disposed of in 1999.

This item comprises minority stockholder interests in the equity of consolidated subsidiaries, if applicable adjusted according to the accounting guidelines of Messer Group.

Significant minority interests are held by third party stockholders at Goyal MG Gases Ltd., Technogas AG, Messer de Centroamerica S.A., Hunan Xianggang Messer Gas Products, Sauerstoffwerk Lenzburg and Messer Nippon Sanso.

Of Messer Group's net income, DM 14 795 thousand (1998: DM 16 170 thousand) is attributable to minority stockholders.

Provisions for pension obligations are established for benefits payable in the form of retirement, disability and surviving dependent pensions. The benefits offered by the Group vary according to the legal, fiscal and economic conditions of each country. The commitments result from defined contribution and defined benefit plans. Benefits are generally dependent on years of service and the employee's compensation. Provisions for similar obligations consist primarily of company or statutory severance payments and early retirement benefits.

The pension plans in Germany consist primarily of defined contribution plans (the 'Company Pension Fund'), which are funded through a legally independent pension fund. In addition, provisions are established for defined benefit plans. In accordance with IAS 19, a separate actuarial valuation was not performed for obligations funded by the independent pension fund. In accordance with IAS 19, the Group's contributions to defined contribution plans, such as the independent pension fund in Germany, are recognized as an expense when incurred.

The obligations resulting from defined benefit pension plans in Germany and abroad are determined using the projected unit credit method in accordance with IAS 19. Future salary and benefit increases are taken into account. There were no extraordinary expenses or revenues due to plan terminations, curtailments or settlements in 1999.

An unrecognized net loss of DM 30 226 thousand (1998: DM 24 099 thousand) results from the difference between the projected benefit obligation in excess of plan assets and the accrued pension cost.

The actuarial assumptions used to determine the pension obligations for German plans are based on a discount rate of 6,5 % (1998: 6 %), wage and salary increases of 3 % and 2 % respectively (1998: 2,5 % and 1,5 % respectively), an increase in the limit for social security contributions of 3 % (1998: 2,5 %) and average employee turnover of 2 % (1998: 2%). The change in assumptions was based on updated information about expected future developments of the respective underlying data. In addition, the Heubeck mortality tables 1998 (1998: PK Chemie 1996 R) were used for the evaluation.

Obligations and provisions of the pension plans in Germany

	31.12.1999	31.12.1998
Projected benefit obligation	241 982	247 790
Unrecognized net loss	– 7 014	– 10 309
Accrued pension cost in accordance with IAS 19	234 968	237 481

The unrecognized loss results from differences between actuarial assumptions and actual experience. In accordance with IAS 19, this amount will be recognized as an expense over the expected remaining service time of active employees. The first time application of IAS 19 (revised 1998) leads to an additional amount of DM 13 453 thousand, which is charged to Messer Griesheim GmbH.

In addition to the plans in Germany, defined benefit pension plans mainly exist at Messer UK Limited and Messer Griesheim Industries Inc. The commitments are covered by independent funds. The funds' net assets consist of real estate, debt securities and marketable equities.

The actuarial assumptions used in foreign entities are a discount rate of 5.5-7 % (1998: 5.5-7.3 %) a rate of increase in salary levels of 3.5-4.5 % (1998: 3.5-4.5 %) and pension levels of 0-4.5 % (1998: 0-4.5 %) as well as average employee turnover of 3-5 % (1998: 5 %), depending on the circumstances in each country.

Obligations, assets and provisions for pension plans of the non-German companies

	31.12.1999	31.12.1998
Projected benefit obligation	137 370	165 598
Plan assets at fair value	– 141 515	– 170 638
Projected benefit obligation in excess of plan assets	– 4 145	– 5 040
Unrecognized net gain	30 226	34 408
Accrued pension cost in accordance with IAS 19	26 081	29 368

The amount of the projected benefit obligation in excess of plan assets is primarily related to Messer Griesheim Industries Inc. and is the result of the favourable development of fund assets and lower growth rates used in the actuarial assumptions.

Expenses related to all pension plans within the Group

	31.12.1999	31.12.1998
Expenses related to defined benefit plans	35 051	31 161
Expenses related to defined contribution plans	1 529	4 856
of which company contributions to the pension fund in Germany	4 023	4 125

Actuarial valuations for the pension plans in Germany are prepared annually. Other obligations and funds are valued at least every three years. Obligations for severance payments and early retirement benefits are generally determined through actuarial calculations based on the requirements of tax law with discount rates and salary trends prevailing in the respective countries. The liability recorded in the balance sheet presents the actuarial present value of such obligations.

(26)

Other provisions

Non-current	31.12.1999	31.12.1998
Tax risks	36 436	34 108
Deferred taxes	306 510	258 127
Employee-related commitments	23 571	24 351
Environmental liabilities	14 973	14 973
Purchase and sales contracts	13 086	12 976
Other	48 600	25 332
	443 176	369 867

Current		
Deferred taxes	23 369	4 033
Employee-related commitments	53 204	51 626
Other	47 968	53 872
	124 541	109 531
Total	567 717	479 398

Provisions for tax risks include amounts for periodic tax audits. Employee-related commitments relate primarily to long-service bonuses, paid vacation, severance payments and to part-time employment of employees prior to their retirement.

(27)

Corporate debt

Non-current	31.12.1999	31.12.1998
Liabilities due to banks	1 646 728	1 332 336
Liabilities related to finance leases	255 894	223 603
Other loans	11 246	55 496
	1 913 868	1 611 435

Current		
Liabilities due to banks	736 131	375 725
Liabilities from bills of exchange	–	66 624
Liabilities related to finance leases	35 758	30 200
Other loans	59 293	15 536
	831 182	488 085
Total	2 745 050	2 099 520

Fixed rate interest agreements	1 762 194	652 039
Floating rate interest agreements	982 856	1 447 481
Total	2 745 050	2 099 520

The weighted average nominal interest rates are:	
Liabilities due to banks	5,85 %
Liabilities related to finance leases	5,77 %
Other loans	5,83 %

Of liabilities related to finance leases, DM 215 043 thousand (1998: DM 220 050 thousand) is payable to companies in which a participating interest is held. Other loans include credit liabilities of DM 3 890 thousand (1998: DM 15 137 thousand) payable to unconsolidated subsidiaries and affiliated companies and credit liabilities amounting to DM 2 184 thousand (1998: DM 1 222 thousand) payable to companies in which a participating interest is held. DM 895 820 thousand (1998: DM 778 149 thousand) of corporate debt has a remaining term of more than five years.

Annual repayments over the lease term are made for liabilities related to finance leases.

(28)

Trade accounts payable

	31.12.1999	31.12.1998
Due to suppliers	247 085	225 877
Due to unconsolidated subsidiaries and affiliated companies	14 070	6 817
Due to companies in which a participating interest is held	5 232	13 414
Due to stockholders	9	220
Total	266 396	246 328

(29)

Miscellaneous liabilities

	31.12.1999	*	31.12.1998	*
Liabilities due to subsidiaries and affiliated companies unconsolidated	16 587	16 587	32 492	32 492
Liabilities due to companies in which a participating interest is held	3 555	3 555	11 622	11 622
Liabilities due to stockholders	–	–	122	122
Bills payable	2 678	2 678	5 635	5 635
Advance payments received on orders	41 974	41 974	27 407	27 407
Payroll liabilities	37 741	37 741	49 839	49 839
Taxes payable	16 956	16 956	35 489	35 489
Liabilities due to customers	15 412	15 412	16 771	16 771
Accrued interest	50 520	50 520	21 740	21 740
Deferred income	56 506	56 506	47 059	47 059
Social security payable	7 525	7 525	8 914	8 914
Other liabilities	166 108	166 108	65 137	65 137
Total	415 562	415 562	322 227	322 227

* of which liabilities due within one year

Deferred income is primarily related to advanced invoicing for rental contracts and usage charges for steel gas cylinders and other equipment for terms of more than one year.

(30)

Total of all current assets and current liabilities

The sum of all current assets amounts to DM 1 362 694 thousand (1998: DM 1 320 506 thousand), the sum of all current liabilities to DM 1 637 681 (1998: DM 1 166 171 thousand).

(31)

Cost of materials

	1999	1998
Cost of raw materials, supplies and merchandise	897 000	837 349
Cost of services purchased	221 874	217 776
Total	1 118 874	1 055 125

The cost of services purchased primarily include costs for energy purchased from third parties.

(32)

Personnel expenses

	1999	1998
Wages and salaries	711 480	676 364
Social security contributions	136 334	110 729
Expenses related to pensions	38 520	39 351
Expenses related to other benefits	4 724	4 796
Total	891 058	831 242

Compulsory social security contributions include the employer's portion of social security payments as well as employer's contributions to worker's insurance associations. Expenses related to pensions primarily contain payments for retirement pensions and benefits and the additions to provisions for pensions. Expenses for the management of external pension funds are also shown under this item.

(33)

Number of employees at year end

	31.12.1999	31.12.1998
Europe	6 346	7 861
Americas	2 037	2 057
Asia	1 303	1 082
Africa	322	289
Total	10 008	11 289

The separation of the Cutting & Welding Group has reduced the number of employees at year end 1999 from 11 449 to 10 008.

(34)

Long Term Incentive Plan for Executives

In 1998 Messer Griesheim GmbH's supervisory board approved the 'Long Term Incentive Plan of the Messer Group' (LTIP). The plan in which approximately 40 executives participate worldwide, represents an additional incentive to commit to the long-term increase in the company's value. The first component of the LTIP is the cash-plan, granting the participant a premium in 2001 after a four year plan period. The premium is based on the development of the return on capital and the growth in Messer Group's net sales in comparison to competitors.

The second component of the LTIP is the Share Appreciation Rights Plan (SAR-Plan). This provides the opportunity to participate in the increase of value of Messer "phantom" shares by granting appreciation rights. The value of the Messer phantom shares is derived from the development of Messer Group's net income and changes in competitors' stock prices. Every year of the plan period the participant is granted a certain number of appreciation rights.

The Phantom Share Purchase Plan (PSP-Plan) is the third component of the LTIP. This gives participants the chance to exchange part of their annual bonus for phantom shares, in order to participate in the development of the Messer Group's value.

The re-exchange of phantom shares and appreciation rights is restricted to certain quantitative and timing criteria, which additionnally secure the LTIP's long-term aspect.

On a change in control of Messer Griesheim, the plan provides for immediate resolution of all participants' rights over the plan period stemming from the three components of the LTIP.

(35)

Commitments not included in the balance sheet

	31.12.1999	31.12.1998
Guarantees	530 593	592 450
Share capital not yet fully paid in and extended liability	96 574	24 562
Contingent liabilities resulting from the issue and transfer of bills	249	1 288
Warranty obligations	258	453

Guarantees of DM 85 292 thousand (1998: DM 542 697 thousand) relate to unconsolidated subsidiaries and affiliates. Due to the disposal of the Cutting and Welding Group, guarantees of DM 10 725 thousand had to be reclassified as third-party guarantees. Share capital not yet fully paid in and as an extended liability of DM 88 084 thousand (1998: DM 18 527 thousand) relate to unconsolidated subsidiaries and affiliates.

(36)

Other financial obligations

Other financial obligations not included in the balance sheet relate to: commitments for capital expenditures of DM 89 831 thousand (1998: DM 46 284 thousand); commitments for long-term purchase agreements of DM 138 551 thousand (1998: DM 178 864 thousand); and miscellaneous commitments amounting to DM 0 thousand (1998: DM 6 408 thousand). Completion of the individual capital expenditure projects extends over several years.

In addition, there are the following obligations arising from long-term leasing and rental agreements:

	31.12.1999	31.12.1998
Expenditure within the next year	35 758	30 200
Expenditure in the second to the fifth year	130 193	114 164
Expenditure after the fifth year	125 701	109 439
Total	291 652	253 803

These amounts represent nominal values.

(37)

Derivative financial instruments

In order to hedge currency and interest rate positions in the ordinary course of business, common instruments such as forward exchange contracts, currency and interest rate swaps, interest rate caps and options are used. The use of derivative financial instruments is restricted by internal guidelines. Regular audits are conducted to ensure the separation of the trading function, the settlement and control functions as well as compliance with the guidelines.

	Currency derivatives		Interest rate derivatives	
	31.12.1999	31.12.1998	31.12.1999	31.12.1998
Nominal values	80 692	9 685	321 937	353 088
Fair values	– 1 877	369	4 746	– 2 480
Credit risk	1 010	374	4 961	617

The terms of currency derivatives are usually less than one year. The average term for interest rate derivatives amounts to 3 years. Provisions were set up for transactions with negative fair values not yet settled as of 31.12.1999.

The nominal values represent the sum of all currency and interest rate positions of the respective derivative contracts bought and sold but not offset at the balance sheet date. The computation of the fair values does not consider the offsetting change in the value of the item being hedged. Credit risk is the sum of the positive fair values of derivatives. The risk is the danger of nonperformance by counterparties. This risk is minimized by exclusively entering into contracts with banks of high credit standing and ensuring that the internal limits for each counterparty are adhered to.

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(38)

Transactions with Hoechst

As of December 31, 1999 Hoechst AG was the majority stockholder of Messer Griesheim GmbH. Messer Griesheim GmbH has entered into several sale and service contracts with companies within the Hoechst group and is therefore committed to deliver and receive certain goods or services. Net sales to companies within the Hoechst group amount to DM 53 382 thousand (1998: DM 160 754 thousand), services acquired from companies within the Hoechst group amount to DM 11 510 thousand (1998: DM 56 607 thousand). The transactions are settled at contractually agreed market prices.

(39)

Information relating to the Board of Management of Messer Griesheim GmbH

	1999	1998
Remuneration for the Supervisory Board	**181**	158
Remuneration for the Board of Management	**3945**	4041
Pensions for former members of the Board of Management or their surviving dependents	**1669**	1557
Pension accruals for former members of the Board of Management or their surviving dependents	**18576**	17987

Stockholders

Hoechst AG 66 2/3%
Messer Industrie GmbH 33 1/3%

Stockholders' Committee

Prof. Dr.-Ing. Ernst Schadow
Chairman (until 25.10.1999),
Member of the Board of Management of Hoechst AG

Horst Waesche (since 26.10.1999)
Chairman (since 15.11.1999),
Member of the Board of Management of Aventis S.A.

Carl-L. von Boehm-Bezing
Member of the Board of Management of Deutsche Bank AG

Dr. Eberhard Cleff (until 25.6.1999)
Treasury Manager of Hoechst AG

Prof. Dr. Dr. h.c. Hans Havermann
Wirtschaftsprüfer

Igor Landau (since 26.10.1999)
Member of the Board of Management of Aventis S.A.

Dr. jur., Diplom-Volkswirt Klaus-Jürgen Schmieder (since 25.6.1999 until 25.10.1999)
Member of the Board of Management of Hoechst AG

Supervisory Board

Prof. Dr.-Ing. Ernst Schadow (until 25.10.1999)
Chairman,
Member of the Board of Management of Hoechst AG

Horst Waesche (since 26.10.1999)
Chairman (since 8.12.1999),
Member of the Board of Management of Aventis S.A.

Fritz Klingelhöfer
Deputy Chairman,
Technician, Chairman of the Central Works Council of Messer Griesheim GmbH

Carl-L. von Boehm-Bezing
Member of the Board of Management of Deutsche Bank AG

Hans-Dieter Brand
General Manager of IG BCE Mitglieder-Service GmbH

Dr. Eberhard Cleff (until 25.6.1999)
Treasury Manager of Hoechst AG

Klaus Dupke
Technical employee, Deputy Chairman of the Central Works Council of Messer Griesheim GmbH

Albertus Geilen
Technical employee, Member of the Central Works Council of Messer Griesheim GmbH

Prof. Dr. Dr. h. c. Hans Havermann
Wirtschaftsprüfer

Igor Landau (since 26.10.1999)
Member of the Board of Management of Aventis S.A.

Prof. Dr. Dr. h. c. mult. Heinz Riesenhuber
Chemist, Bundesminister a. D.

Alexander Sauer
Deputy Chairman of the Committee of Senior Executives of Messer Griesheim GmbH

Dr. jur., Diplom-Volkswirt Klaus-Jürgen Schmieder (since 25.6.1999 until 25.10.1999)
Member of the Board of Management of Hoechst AG

Dr. jur., Petra Wibbe, LL.M.
Lawyer

Wilfried Woller
Regional manager of the Industriegewerkschaft Bergbau Chemie Energie

General Managers

Herbert Rudolf, Chairman (until 31.12.1999)

Klaus-Jürgen Schmieder, Chairman (since 1.1.2000)

Stefan Messer

Stefan Schaefer

Jürgen Schöttler

Business development and projects

The Supervisory Board attended to its duties, according to the law and articles of incorporation, during 1999 and provided the Company's Management with its advice. The Management informed the Supervisory Board, orally and in writing, in particular during the regular meetings held on February 25 and December 8, 1999, about the course of the business and the situation of the company. The Supervisory Board was also informed about important business events and decisions.

1999 Annual accounts

The Supervisory Board confirmed, both in the auditing and balance sheet committee and in the plenary meeting that the accounting, the annual financial statements of Messer Griesheim GmbH and the statements of the Group dated December 31, 1999, as well as the reports on the situation of Messer Griesheim GmbH and the Messer Group, have been examined by the PwC Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main and provided with unrestricted audit certificates. The examination reports were discussed in the committee with the consultation of the auditors. The Supervisory Board had no objections and agreed with the result of the auditor. The Supervisory Board is in agreement with the proposal of the Management for the utilization of the balance sheet profits.

Personnel data

In the course of the period covered by the report, Dr. Eberhard Cleff retired from the Supervisory Board. In his place, Dr. Klaus-Jürgen Schmieder was elected to join the Supervisory Board. Later on, Professor Dr. Ernst Schadow and Dr. Klaus-Jürgen Schmieder resigned from the Supervisory Board. In their place, Messrs. Igor Landau and Horst Waesche were elected as new members to the Supervisory Board. The Supervisory Board thanks the resigned members for their excellent co-work, dedication and commendable service. On December 9, 1999, the Supervisory Board elected Mr. Horst Waesche as Chairman. Effective January 1, 2000 the Supervisory Board elected Dr. Klaus-Jürgen Schmieder in place of Mr. Herbert Rudolf as Chairman of the Board of Management. The Supervisory Board thanks Mr. Rudolf for his long-term and successful performance and wishes every success to Dr. Klaus-Jürgen Schmieder.

The Supervisory Board thanks the members of the Board of Management, the employee representatives, and all the employees of Messer Group for their dedication and performance in 1999.

Frankfurt am Main, February 24, 2000

The Supervisory Board

Horst Waesche
Chairman

Messer will change its financial reporting from DM to Euro in 2000. To aid comparisons, the Group income statements, Group balance sheets and the Group cash-flow statements, including prior year figures, are presented in euro below, based on the official conversion rate of DM 1.95583 per euro. For explanatory footnotes and references to the notes of the consolidated financial statements please refer to the DM presentations.

Consolidated Income Statement

		1999 Euro thousand		1999 Euro thousand
Net sales		1 756 842		1 723 841
Cost of sales	–	889 957	–	859 013
Gross profit		866 885		864 828
Distribution and selling costs	–	567 229	–	541 269
Research and development costs	–	25 225	–	28 208
General and administrative costs	–	154 555	–	117 664
Other operating income	+	38 630	+	51 041
Other operating expense	–	29 253	–	24 033
Operating profit		129 253		204 695
Investment income (expense), net	–	926	+	402
Result from associated companies	–	12 391	–	2 521
Interest expense, net	–	56 667	–	43 212
Other financial expense, net	–	2 760	–	974
Financial result	–	72 744	–	46 305
Loss on transfer of discontinuing operation	–	14 342		–
Profit before taxes on income		42 167		158 390
Taxes on income	–	41 894	–	53 486
Income before minority interests		273		104 904
Minority interests	–	7 564	–	8 268
Net income/loss	–	7 291		96 636

Consolidated Balance Sheet

Assets	31.12.1999 Euro thousand	31.12.1998 Euro thousand
Intangible assets	146 974	139 667
Property, plant and equipment	1 960 356	1 502 222
Investments	208 932	261 006
Fixed assets and investments	2 316 262	1 902 895
Inventories	105 338	166 638
Trade accounts receivable and receivables related to long-term construction contracts	243 269	318 992
Other receivables and other assets	299 178	118 260
Marketable securities	1 232	4 535
Cash and cash equivalents	47 718	66 739
Current assets	696 735	675 164
Total assets	3 012 997	2 578 059

Stockholders' Equity and Liabilities	31.12.1999 Euro thousand	31.12.1998 Euro thousand
Subscribed capital of Messer Griesheim GmbH	276 098	276 098
Additional paid-in capital	118 722	118 722
Retained earnings	349 972	248 675
Net income/loss	– 7 291	96 636
Stockholder's equity	737 501	740 131
Minority interests	92 346	75 294
Provisions for pensions and similar obligations	140 680	153 357
Other provisions	226 592	189 110
Corporate debt	978 545	823 914
Non-current liabilities	1 345 817	1 166 381
Other provisions	63 677	56 002
Corporate debt	424 977	249 554
Trade accounts payable	136 206	125 946
Miscellaneous liabilities	212 473	164 751
Current liabilities	837 333	596 253
Total stockholders' equity and liabilities	3 012 997	2 578 059

Key Figures of the Messer Group in Euro

Consolidated Cash Flow Statement

	1999 Euro thousand	1998 Euro thousand
Profit before taxes on income	+ 42 168	+ 158 390
Income taxes paid	– 43 089	– 30 200
Loss on transfer of discontinuing operation	+ 14 342	–
Depreciation of fixed assets and investments	+ 210 186	+ 158 055
Appreciation of fixed assets and investments	– 708	– 3 423
Gain on disposal of fixed assets and investments	– 107	– 12 324
Changes in at equity valuation	+ 5 165	+ 3 142
Interest expense, net	+ 56 667	+ 43 212
Other financial expense, net	+ 2 760	+ 975
Changes in inventories	+ 2 969	+ 5 134
Changes in receivables and other assets	– 88 854	– 62 296
Proceeds from sale of accounts receivable	–	+ 51 129
Changes in provisions	+ 23 968	+ 9 164
Changes in other liabilities	+ 111 646	– 213
Other	+ 1 133	– 6 833
Cash flow from operating activities	+ 338 246	+ 313 912
Capital expenditure on property, plant and equipment and investment in intangible assets	– 462 719	– 472 756
Financial investments	– 93 615	– 193 159
Disposal of subsidiary, net of cash disposed	– 10 549	–
Proceeds from the sale of property, plant and equipment and intangible assets	+ 46 118	+ 69 343
Proceeds from the sale of investments, other financial result	+ 29 243	+ 13 030
Changes in marketable securities	+ 2 655	– 356
Interest received	+ 13 979	+ 14 412
Cash flow used for investing activities	– 474 888	– 569 486
Capital increases	–	+ 29 757
Additions to non-current corporate debt	+ 67 858	+ 297 930
Additions to current corporate debt	+ 160 892	+ 34 101
Dividends paid	– 52 612	– 53 874
Interest paid	– 70 647	– 57 624
Cash flow from financing activities	+ 105 491	+ 250 290
Cash flow from operating, investing and financing activities	– 31 151	– 5 284
Effect of exchange rate changes on cash	+ 1 570	– 4 602
Effect of consolidation changes on cash	+ 10 560	+ 55 357
Changes in cash and cash equivalents	– 19 021	+ 45 471
Cash and cash equivalents at beginning of year	+ 66 739	+ 21 268
Cash and cash equivalents at end of year	+ 47 718	+ 66 739

Amounts in million	1999 DM	1999 Euro	1998 DM	1998 Euro	1997 DM	1997 Euro	1996 DM	1996 Euro	1995 DM	1995 Euro
Net sales	3 436	1 757	3 372	1 724	2 806	1 435	2 470	1 263	2 392	1 223
Operating profit	253	129	400	205	370	189	330	169	303	155
Profit before taxes on income	83	42	310	158	298	152	265	135	245	125
Taxes on income	82	42	105	53	105	54	81	41	81	41
Income before minority interests	1	0	205	105	193	98	184	94	164	84
Net income/loss	– 14	– 7	189	97	185	95	173	88	157	80
After tax return on equity in %	0		13		14		17		17	
Return on total assets in %	5		9		11		11		11	
Fixed asses and investments	4 530	2 316	3 722	1 903	2 968	1 518	2 299	1 175	2 081	1 064
Current assets and prepaid items	1 363	697	1 320	675	1 069	547	748	382	820	419
Stockholders' equity	1 442	737	1 448	740	1 394	713	1 165	596	981	502
Minority interests	181	92	147	75	79	40	40	20	46	24
Non-current liabilities	2 632	1 346	2 281	1 166	1 598	817	1 181	604	1 173	600
Current liabilities	1 638	837	1 166	596	966	494	661	338	701	358
Balance sheet total	5 893	3 013	5 042	2 578	4 037	2 064	3 047	1 558	2 901	1 483
Capital expenditure on tangible fixed assets and intangible assets	905	463	924	472	490	251	377	193	392	200
Financial investments	183	94	378	193	322	165	195	100	107	55
Depreciation of tangible fixed assets and intangible assets	402	206	304	155	262	134	241	123	208	106
Corporate debt	2 745	1 403	2 100	1 074	1 391	711	764	391	754	386
Interest and similar expenses	166	85	120	61	80	41	71	36	69	35
Interest expense, net	– 111	– 57	– 85	– 43	– 59	– 30	– 60	– 31	– 60	– 31
Research and development costs	49	25	55	28	53	27	43	22	49	25
Personnel expenses	891	456	831	425	675	345	604	309	631	323
Number of employees (on December 31)	10 008		11 289		8 282		7 235		7 347	

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Typesetting Citigate Albert Frank, London
Photography Michael Heffernan
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Print Bernecker Mediagruppe, Melsungen